

BOARD OF WATER SUPPLY of the COUNTY OF KAUA'I

SPECIAL BOARD MEETING

Second Floor, Microbiology Lab Bldg
Kaua'i County Department of Water
4398 Pua Loke Street, Lihu'e, Kaua'i, Hawai'i 96766

FRIDAY, DECEMBER 3, 2010

9:00 a.m.

or thereabouts

AGENDA

1. ROLL CALL
2. ACCEPTANCE OF AGENDA
3. NEW BUSINESS

Review of Department of Water Final Audit submitted by KMH, LLP

4. ADJOURNMENT

NOTE: Special Accommodations for persons with disabilities are available upon request five (5) days prior to the meeting date. Please call the Department of Water, County of Kauai, at 245-5408 or drop by at 4398 Pua Loke Street, Lihue, Kauai. Our mailing address is PO Box 1706, Lihue, HI 96766.

Department of Water
County of Kauai

Financial Statements
As of June 30, 2010 and 2009
Together with Independent Auditor's Report

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A Hawaii Limited Liability Partnership

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the Department of Water (the Department), a component unit of the County of Kauai, Hawaii, as of and for the years ended June 30, 2010 and 2009 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2a, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the County of Kauai, Hawaii, as of June 30, 2010 and 2009, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Water, as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010 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 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 internal control over financial reporting or on compliance. That report is

an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6, as well as the schedule of funding progress for the Hawaii Employer-Union Health Benefits Trust Fund on page 34, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financials statements that collectively comprise the Department of Water, County of Kauai's basic financial statements. The accompanying supplemental information included in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
November 30, 2010

Department of Water, County of Kauai

Management's Discussion and Analysis
June 30, 2010

The Department of Water of the County of Kauai is a semi-autonomous agency consisting of a Board of Water Supply, Manager and Chief Engineer, and support staff. The Board of Water Supply is responsible for the management, control, and operation of the County of Kauai's water system. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- Total assets at fiscal year-end were \$254.9 million and exceeded liabilities by \$145.5 million.
- Total net assets increased \$8.0 million or 6% and is basically the result of the current year's operations and capital contributions.
- Total cash and investments at June 30, 2010 were \$82.2 million and increased by \$62.0 million.
- The Department's liquidity ratio is 1.9 for FY 2010 and 2.1 for FY 2009.
- The debt to equity ratio is 65% for FY 2010 and 17% for FY 2009.
- Operating revenues for FY 2010 was \$19.8 million, an increase of \$1.4 million and is primarily attributable to an increase in the water rate and charges.
- Operating expenses for the current year totaled \$18.4 million, an increase of approximately \$1.0 million in comparison to the prior year. The major components of the increase are discussed later.
- Long-term debt has increased by \$71.8 million, or 293%, and is primarily a result of additional borrowings through State Revolving Fund loan agreements with the State of Hawaii Department of Health of \$13.1 million and issuance of general obligation bonds of \$60 million.

Overview of the Financial Statements

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

The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, a statement of cash flows, and notes to basic financial statements. The statement of

Department of Water, County of Kauai

Management's Discussion and Analysis
June 30, 2010

net assets presents all of the Department's assets and liabilities and provides information on the nature of its resources and obligations. The statement of revenues, expenses and changes in net assets presents the results of operations and the resulting change in net assets for the year. The statement of cash flows presents changes in cash resulting from operating activities, capital and related financing activities, and investing activities.

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

Financial Analysis

Statement of Net Assets - Condensed
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Assets:			
Current and Other Assets	\$ 22,624,770	\$ 15,768,375	43%
Capital Assets, net	166,644,477	149,511,005	11%
Other Non-current Assets	<u>65,588,627</u>	<u>9,116,543</u>	619%
Total assets	<u><u>\$ 254,857,874</u></u>	<u><u>\$ 174,395,923</u></u>	46%
Liabilities:			
Current Liabilities	\$ 9,252,427	\$ 7,274,607	27%
Long-term Debt, net	94,530,550	23,310,007	306%
Other Long-term Liabilities	<u>5,622,098</u>	<u>6,323,074</u>	(11%)
Total liabilities	<u><u>\$ 109,405,075</u></u>	<u><u>\$ 36,907,688</u></u>	196%
Net Assets:			
Invested in Capital Assets, net of related debt	\$ 124,942,526	\$ 121,961,761	2%
Restricted	3,976,809	5,561,547	(28%)
Unrestricted	<u>16,533,464</u>	<u>9,964,927</u>	66%
Total net assets	<u><u>\$ 145,452,799</u></u>	<u><u>\$ 137,488,235</u></u>	6%

Department of Water, County of Kauai

Management's Discussion and Analysis
June 30, 2010

Statement of Revenues, Expenses and Change in Net Assets - Condensed June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Operating Revenues	\$ 19,785,812	\$ 18,375,106	8%
Operating Expenses	<u>18,454,128</u>	<u>17,443,926</u>	6%
Income from Operations	<u>1,331,684</u>	<u>931,180</u>	43%
Non Operating Income (Expenses)			
Investment Income	811,341	771,077	5%
Interest Expense	(1,842,344)	(1,101,472)	67%
Capital Contributions	<u>7,663,883</u>	<u>6,012,726</u>	27%
Increase in Net Assets	<u>\$ 7,964,564</u>	<u>\$ 6,613,511</u>	20%

The Department's financial condition remains positive at the year-end. As described earlier, net assets is the reported difference between assets and liabilities and which over time, may serve as a useful indicator of the Department's overall financial position. The total assets at year-end for the Department was \$254.9 million and exceeded liabilities by \$145.5 million (net assets). Total net assets increased by \$8.0 million, or 6%, for FY 2010.

Total cash and investments (including restricted funds) increased \$62.0 million from \$20.2 million in FY 2009 to \$82.2 million in FY 2010. The increase is comprised of a \$5.5 million increase in unrestricted cash and investments and a \$56.5 million increase in restricted cash and investments. The increase in unrestricted funds is a result of net cash provided by operating activities. The increase in restricted cash and investments was primarily related to the issuance \$60 million in Build America Bonds (BAB) in FY 2010.

The Department's liquidity ratio is (current assets divided by current liabilities) 1.9 for FY 2010 and 2.1 for FY 2009.

The Department finances part of its capital improvement and rehabilitation program through long-term bond issues and State Revolving Fund loans. The debt to equity ratio for FY 2010 and FY 2009 was 65% and 17%, respectively. The debt service coverage for FY 2010 is 1.7, which is above the Department's debt service coverage target of 1.5.

Department of Water, County of Kauai

Management's Discussion and Analysis
June 30, 2010

The increase in net assets for FY 2010 amounted to \$8.0 million and is basically a result of the current year's operations and capital contributions. Key elements of this increase are as follows:

Operating revenues for FY 2010 amounted to \$19.8 million, which was \$1.4 million or 8% higher than FY 2009. The increase is basically attributable to an increase in water rates and charges effective January 1, 2009.

Total operating expenses increased from \$17.4 million in FY 2009 to \$18.4 million in FY 2010, an increase of \$1.0 million or 6%. The major component of the overall increase was the increase in depreciation of \$0.7 million, which was attributable to the \$11.4 million in capital assets added to property, plant and equipment last year.

Capital contributions, which are included as non-operating income amounted to \$7.7 million for FY 2010 and is an increase of 27% from last year's amount of \$6.0 million.

Capital Assets and Debt Administration

Capital assets are made up of property, plant and equipment. As of June 30, 2010, the Department had net capital assets of \$166.6 million. Utility plant additions for FY 2010 amounted to \$20.9 million. Major capital asset additions included:

- \$1.1 million for the Anahola Well #3 Pump, Controls, Pumphouse and Pipeline.
- \$3.7 million for Kekaha, Elepaio Road and Huakai Road Main replacement.
- \$2.0 million for Kalaheo, Waha, Wawae and Niho Roads Main replacement.
- \$2.2 million for Lihue Town Main replacement.
- \$2.1 million for Kapaa Homesteads Main replacement.
- \$3.2 million for Kapaa Well and shelter

Long-term debt obligations outstanding as of June 30, 2010 amounted to \$96.3 million and consisted of \$71.9 million in public improvement bonds and \$24.4 million in State Revolving Fund (SRF) loans. As noted earlier, long-term debt increased by \$71.8 million, or 293%, which is primarily a result of additional borrowings through State Revolving Fund loan agreements with the State of Hawaii Department of Health of \$13.1 million and issuance of general obligation bonds of \$60 million. More detailed information about the Department's long-term debt is provided in note 6 of the notes to the financial statements.

Department of Water, County of Kauai

Statements of Net Assets

June 30, 2010 and 2009

	<u>Assets</u>	
	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 9,211,462	\$ 4,038,671
Equity interest in pooled investments	3,124,332	7,156,930
Receivables:		
Accounts, net of allowance for doubtful accounts of approximately \$218,000 and \$160,000, respectively	2,032,624	2,230,868
Unbilled accounts	1,327,238	1,082,990
Grants and subsidies	635,254	-
Accrued interest	246,068	80,203
Total receivables	<u>4,241,184</u>	<u>3,394,061</u>
Materials and supplies	947,861	865,772
Prepaid expenses	61,077	41,719
Total current assets	<u>17,585,916</u>	<u>15,497,153</u>
Restricted Assets:		
Facility reserve charge funds:		
Cash	1,304,738	484,641
Equity interest in pooled investments	4,250,588	5,841,486
Accrued interest receivable	52,872	64,653
	<u>5,608,198</u>	<u>6,390,780</u>
Bond funds:		
Cash	276,429	21,763
Equity interest in pooled investments	59,704,000	2,704,000
	<u>59,980,429</u>	<u>2,725,763</u>
Total restricted assets	<u>65,588,627</u>	<u>9,116,543</u>
Equity Interest in Pooled Investments - Noncurrent	4,302,786	-
Other Assets	736,068	271,222
Utility Plant:		
In service	223,914,069	204,354,658
Accumulated depreciation	(76,276,107)	(71,717,505)
	147,637,962	132,637,153
Construction work in progress	19,006,515	16,873,852
Total property, plant and equipment	<u>166,644,477</u>	<u>149,511,005</u>
Total assets	<u>\$ 254,857,874</u>	<u>\$ 174,395,923</u>

See accompanying notes to financial statements.

Department of Water, County of Kauai

Statements of Net Assets (continued)

June 30, 2010 and 2009

	<u>Liabilities and Net Assets</u>	
	<u>2010</u>	<u>2009</u>
Current Liabilities:		
Current portion of long-term debt	\$ 1,818,000	\$ 1,176,000
Current portion of capital lease obligation	483,000	455,000
Accounts payable and accrued liabilities	3,947,075	3,169,438
Contracts payable, including retainages	1,222,446	434,095
Customer advances for construction	923,449	964,739
Accrued vacation and compensatory pay	502,000	492,000
Customer deposits	352,160	344,062
Due to primary government	4,297	764
Post-retirement health care benefits payable	-	238,509
Total current liabilities	<u>9,252,427</u>	<u>7,274,607</u>
Restricted Liabilities:		
Contracts payable, including retainages	14,235	385,177
Other liabilities	284,622	-
Total restricted liabilities	<u>298,857</u>	<u>385,177</u>
Long-Term Debt, Net of Current Portion, Unamortized		
Premiums and Deferred Refunding Costs	94,530,550	23,310,007
Capital Lease Obligation, Net of Current Portion	4,850,830	5,334,000
Accrued Vacation and Compensatory Pay, Net of Current Portion	472,411	603,897
Total liabilities	<u>109,405,075</u>	<u>36,907,688</u>
Commitments and Contingencies		
Net Assets:		
Invested in capital assets, net of related debt	124,942,526	121,961,761
Restricted for capital activity and debt service	3,976,809	5,561,547
Unrestricted	16,533,464	9,964,927
Total net assets	<u>\$ 145,452,799</u>	<u>\$ 137,488,235</u>

See accompanying notes to financial statements.

Department of Water, County of Kauai

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Water sales	\$ 18,771,800	\$ 17,532,807
Other water revenue:		
Public fire protection service	925,133	817,839
Other	88,879	24,460
Total operating revenues	<u>19,785,812</u>	<u>18,375,106</u>
Operating Expenses:		
Depreciation	5,898,500	5,182,457
Administrative and general	4,299,141	4,191,919
Transmission and distribution	3,441,115	3,220,889
Power and pumping	3,177,630	3,139,432
Source of supply	920,824	994,243
Customer accounting and collection	583,776	575,875
Purification	133,142	139,111
Total operating expenses	<u>18,454,128</u>	<u>17,443,926</u>
Income from operations	<u>1,331,684</u>	<u>931,180</u>
Non-Operating Income (expense):		
Investment income	811,341	771,077
Interest expense, net of amounts capitalized	(1,842,344)	(1,101,472)
Total non-operating expenses	<u>(1,031,003)</u>	<u>(330,395)</u>
Income before contributions	300,681	600,785
Capital Contributions	<u>7,663,883</u>	<u>6,012,726</u>
Change in net assets	7,964,564	6,613,511
Net Assets at Beginning of Year	<u>137,488,235</u>	<u>130,874,724</u>
Net Assets at End of Year	<u>\$ 145,452,799</u>	<u>\$ 137,488,235</u>

See accompanying notes to financial statements.

Department of Water, County of Kauai

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 18,742,739	\$ 17,106,515
Cash payments to suppliers for goods and services	(8,408,471)	(7,428,893)
Cash payments to employees for services	(4,424,445)	(4,475,897)
Other cash receipts	1,014,012	842,299
	<u>6,923,835</u>	<u>6,044,024</u>
Net cash provided by operating activities		
Cash Flows from Capital and Related Financing Activities:		
Proceeds from issuance of general obligation bonds	60,000,000	-
Acquisition and construction of capital assets	(17,056,255)	(12,877,963)
Proceeds from revolving fund loan	13,126,843	59,081
Principal paid on revolving fund loan	(840,243)	(725,069)
Payments for bond issuance costs	(535,839)	-
Principal paid on public improvement bond maturities	(449,000)	(428,000)
Principal paid on capital lease obligation	(455,170)	(428,087)
Interest paid on long-term debt	(1,379,672)	(1,464,472)
Proceeds from federal government capital grants	1,586,231	-
Proceeds from FRC Program, net of refunds	365,800	548,695
	<u>54,362,695</u>	<u>(15,315,815)</u>
Net cash provided by (used in) capital and related financing activities		
Cash Flows from Investing Activities:		
Purchases of investments	(79,510,860)	(21,431,642)
Sales and maturities of investments	24,067,956	28,669,031
Interest on investments	403,928	739,596
	<u>(55,038,976)</u>	<u>7,976,985</u>
Net cash (used in) provided by investing activities		
Net increase (decrease) in cash (including restricted cash)		
	6,247,554	(1,294,806)
Cash (including restricted cash),		
Beginning of Year	<u>4,545,075</u>	<u>5,839,881</u>
Cash (including \$1,581,167 and \$506,404		
in restricted cash, respectively), End of Year	<u><u>\$ 10,792,629</u></u>	<u><u>\$ 4,545,075</u></u>

See accompanying notes to financial statements.

Department of Water, County of Kauai

Statements of Cash Flows (continued)

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Cash Flows from Operating Activities:		
Income from operations	\$ 1,331,684	\$ 931,180
Depreciation expense	5,898,500	5,182,457
(Increase) decrease in assets:		
Accounts receivable, net	198,244	(688,412)
Unbilled accounts and other	(227,305)	262,120
Materials and supplies	(82,089)	177,084
Prepaid expenses and other assets	51,635	181,515
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(183,092)	378,568
Accrued vacation and compensatory pay	(121,486)	(44,103)
Other liabilities, restricted	284,622	-
Post-retirement healthcare benefits payable	(238,509)	(223,767)
Due to primary government	3,533	(62,444)
Customer deposits	8,098	(50,174)
Net cash provided by operating activities	<u>\$ 6,923,835</u>	<u>\$ 6,044,024</u>

Supplemental Disclosure of Non-cash Capital and Related Financing Activities:

The Department received approximately \$5,077,000 and \$5,464,000 for the years ended June 30, 2010 and 2009, respectively, in contributions of property, plant and equipment from governmental agencies, developers and customers which are recorded as contributions at estimated fair value at the date of donation.

See accompanying notes to financial statements.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

1. 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. Effective January 1, 2009, the Board raised rates 8.5 percent in accordance with the 2006 rate study obtained by the Department.

2. Summary of Significant Accounting Policies

a. Financial Statement Presentation

The Department is a component unit of the County (the primary government). The accompanying financial statements present only the activities of the Department and do not include other organizations, activities and functions of the County.

b. Basis of Accounting

The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

b. Basis of Accounting (continued)

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 revenues and expenses.

The Department follows Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Fund Accounting." Under GASB No. 20, the Department applies all applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Department does not apply FASB Statements and Interpretations issued after November 30, 1989.

c. Cash

The Department's cash include cash on hand and demand deposits.

d. Investments

The Department has stated its long-term investments at fair value. Changes in the fair value of investments are recognized in the statements of revenues, expenses and changes in net assets. Short-term investments are stated at cost, which approximates fair value.

e. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include revenue recognized related to unbilled accounts, accrued liability for workers' compensation claims and judgments and accrued liability for post-retirement health care benefits. Actual results could differ from those estimates.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

f. Utility Plant in Service (UPIS) and Depreciation

In July 1966, a detailed report on the inventory and valuation of water utility properties of the Board was submitted by R. W. Beck and Associates, Analytical and Consulting Engineers, of Seattle, Washington. The estimated original cost of \$5.8 million and the reserve for depreciation of \$1.4 million were recorded in the accounts. Additions to the utility plant since the date of the valuation are stated at cost and include contributions by government agencies, private developers and customers at their fair value at the date of contribution.

Depreciation on the utility plant is computed over the estimated useful lives of the various individual and group assets using the straight-line method. Depreciation expense for the year is calculated using plant balances, including contributions in aid of construction, at the beginning of the year.

The estimated useful lives of the various individual and group assets are as follows:

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

Normal maintenance and repairs are charged to operations as incurred. All expenditures for major additions, betterments and replacements for the utility plant are capitalized, and expenditures for the general plant greater than \$1,000 are capitalized. The Department capitalizes certain indirect costs to construction work orders based upon actual construction direct labor hours.

As of June 30, 2010 and 2009, utility plant held for future use with a carrying value of approximately \$1,031,000 and \$1,056,000, respectively, related to a water tunnel. The Department is currently assessing whether further modifications will be made to bring the asset into compliance with the Environmental Protection Agency's regulations. In 2010 and 2009, no impairment losses were identified by the Department.

g. Capitalization of Interest

Interest costs have been capitalized, in accordance with SFAS No. 34, "Capitalization of Interest Cost," based on an average of expended costs through the end of the year. Capitalized interest in 2010 and 2009 was approximately \$523,000 and \$363,000, respectively.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

h. Material and Supplies

Materials and supplies are stated at lower of average cost (which approximates the first-in, first-out method) or market.

i. 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 in the accompanying statements of net assets.

j. 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 was not significant in any of the three preceding years. The Department is self-insured for workers' compensation claims and judgments.

k. Capital Contributions

The following transactions represent voluntary non-exchange transactions and are recorded at fair value and are included as non-operating income in the statements of revenues, expenses and changes in net assets:

- Receipts from federal and state financial assistance restricted to the acquisition of fixed assets
- Contributed utility plant in service
- Receipts of facility reserve charges
- Interest subsidies related to certain bonds (see Note 6)

At June 30, 2010, the Department recorded approximately \$272,000 for accrued interest subsidies and approximately \$363,000 for grant reimbursements due for capital expenditures incurred in grants and subsidies receivable in the accompanying statements of net assets.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

l. Facilities Reserve Charge (FRC)

Under the authority provided to the Board mentioned in Note 1, 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 contributions in the statements of revenues, expenses and changes in net assets.

m. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions in aid of construction. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consist 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 invested in capital assets, net of related debt. Restricted for capital activity and debt service consists of net assets 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 assets not included in the above categories.

3. Deposits

The Department's deposits consist of cash, money market accounts and non-negotiable certificates of deposits. The Department's deposits are controlled by the Director of Finance of the County of Kauai.

At June 30, 2010 and 2009, the carrying value of the Department's cash deposits amount to approximately \$10,793,000 and \$4,545,000, respectively, of which approximately \$5,652,000 and \$1,023,000, respectively, were held by the County in the County's name. The banks' balances at June 30, 2010 and 2009 amounted to approximately \$10,253,000 and \$4,331,000, respectively. The Director of Finance has arranged for all of the Department's deposits at June 30, 2010 and 2009 to be collateralized with securities held by the pledging financial institution in the County's name.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

4. Investments

The Department's investments are controlled by the Director of Finance of the County of Kauai and are generally invested in certificates of deposit, repurchase agreements, government sponsored entity securities (i.e., Federal Home Loan Bank notes and bonds, Federal Home Loan Mortgage Corporation bonds, and Federal National Mortgage Association notes and bonds) with federally insured financial institutions and mutual funds. The Department's investment vehicles are consistent with the investment guidelines contained in the Hawaii Revised Statutes (HRS).

The Department participates in an investment pool with the County. The Department's portion of this pool is displayed on the statements of net assets as equity interest in pooled investments.

The following is the composition of the Department's portion of these investments as of June 30, 2010 and 2009:

2010:	Fair Value (approximate)	Investment Maturities (in years)			
		0-5	5-10	10-20	>20
Government sponsored entities and other agencies	\$ 50,776,000	\$ 49,766,000	\$ 1,010,000	\$ -	\$ -
US governments	13,381,000	13,381,000	-	-	-
Other fixed income	4,067,000	4,067,000	-	-	-
US corporates	105,000	105,000	-	-	-
Total	<u>\$ 68,329,000</u>	<u>\$ 67,319,000</u>	<u>\$ 1,010,000</u>	<u>\$ -</u>	<u>\$ -</u>
2009:	Fair Value (approximate)	Investment Maturities (in years)			
		0-5	5-10	10-20	>20
Government sponsored entities and other agencies	\$ 11,634,000	\$ 11,634,000	\$ -	\$ -	\$ -
US corporates	448,000	448,000	-	-	-
Mutual funds	12,000	12,000	-	-	-
Total	<u>\$ 12,094,000</u>	<u>\$ 12,094,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2010 and 2009, excluded from the above disclosures is approximately \$3,022,000 and \$3,608,000, respectively, of non-negotiable certificates of deposit which are classified as investments in the statement of net assets, but are considered deposits for the purposes of this disclosure.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

4. Investments (continued)

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 (NRSROs). The Department has no investment policy that would further limit its investment choices. As of June 30, 2010, with the exception of the Department’s investment in certain fixed income and mutual funds which was not rated, all of the Department’s investments were rated AA-AAA.

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 limit on the amount which may be invested in any one issuer. As of June 30, 2010, more than 5 percent of the Department’s investments are held in the following: Fannie Mae (24%), Federal Home Loan Bank (22%), US Treasury (19%), and Freddie Mac (13%).

5. Property, Plant and Equipment

Property, plant and equipment activity during 2010 and 2009 was as follows:

	Balance June 30, 2009	Additions	Reductions/ Transfers	Balance June 30, 2010
Utility Plant in Service	\$ 204,354,658	\$ 20,902,210	\$ (1,342,799)	\$ 223,914,069
Accumulated Depreciation	(71,717,505)	(5,901,401)	1,342,799	(76,276,107)
	<u>132,637,153</u>	<u>15,000,809</u>	<u>-</u>	<u>147,637,962</u>
Construction in Progress	16,873,852	18,753,764	(16,621,101)	19,006,515
Total	<u>\$ 149,511,005</u>	<u>\$ 33,754,573</u>	<u>\$(16,621,101)</u>	<u>\$ 166,644,477</u>

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

5. Property, Plant and Equipment (continued)

	Balance June 30, 2008	Additions	Reductions/ Transfers	Balance June 30, 2009
Utility Plant in Service	\$ 194,058,891	\$ 11,370,487	\$ (1,074,720)	\$ 204,354,658
Accumulated Depreciation	(67,609,767)	(5,182,458)	1,074,720	(71,717,505)
	<u>126,449,124</u>	<u>6,188,029</u>	<u>-</u>	<u>132,637,153</u>
Construction in Progress	9,272,263	14,284,052	(6,682,463)	16,873,852
Total	<u>\$ 135,721,387</u>	<u>\$ 20,472,081</u>	<u>\$ (6,682,463)</u>	<u>\$ 149,511,005</u>

6. Long-Term Liabilities

Bonds Payable

The full faith and credit of the County are pledged for the payment of the Department's 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.

Unamortized bond issuance cost was approximately \$623,000 and \$101,000 at June 30, 2010 and 2009, respectively. This cost is amortized over the term of the respective bond and is included as other assets in the accompanying statements of net assets.

At June 30, 2010, approximately \$8.9 million of the Department's portion of general obligation bonds outstanding are considered defeased.

On March 24, 2010, the Department issued through the County \$60,000,000 in general obligation bonds (2010A Series Bonds) to fund various capital improvement projects. The Department has elected to treat the 2010A Series Bonds as "Build America Bonds" for the purpose of the American Recovery and Reinvestment Act of 2009 (the Recovery Act) and to receive a cash subsidy from the United States Treasury in connection therewith. Pursuant to the Recovery Act, the Authority will receive cash subsidy payments from the United States Treasury equal to 35 percent of the interest payable on the 2010A Series Bonds.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

6. Long-Term Liabilities (continued)

Bonds Payable (continued)

As of June 30, 2010 and 2009, bonds payable consisted of the following:

	<u>2010</u>	<u>2009</u>
Build America Bonds--County Series 2010A, last installment 2033. Maturing serially from August 1, 2013. Interest rate – 1.96 to 5.76 percent. Date issued – March 24, 2010. Original amount - \$60,000,000.	\$ 60,000,000	\$ -
Public Improvement Bonds--County Series 2005A, last installment 2029. Maturing serially from August 1, 2008. Interest rate - 3.25 to 5.00 percent. Date issued - November 10, 2005. Original amount - \$6,485,000.	6,370,000	6,430,000
Public Improvement Bonds--County Series 2001A, last installment 2025. Maturing serially from August 1, 2001. Interest rate - 4.0 to 6.25 percent. Date issued - May 15, 2001. Original amount - \$11,725,000.	5,630,000	6,005,000
Public Improvement Bonds--County Series 1980, last installment 2015. Maturing serially from March 1, 1983. Interest rate - 5 percent. Date issued - April 7, 1980. Original amount - \$300,000.	81,000	95,000
Total bonds payable	<u>72,081,000</u>	<u>12,530,000</u>
Less: Premium on bond issuance and discount on advanced refunding	<u>(151,014)</u>	<u>(175,958)</u>
Total bonds payable, net	<u>\$ 71,929,986</u>	<u>\$ 12,354,042</u>

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

6. Long-Term Liabilities (continued)

The approximate annual debt service requirements through 2015 and in five-year increments thereafter to maturity as of June 30, 2010 are as follows:

Years ending June 30:	Principal	Interest	Total
2011	\$ 470,000	\$ 3,078,000	\$ 3,548,000
2012	490,000	3,487,000	3,977,000
2013	516,000	3,462,000	3,978,000
2014	2,417,000	3,415,000	5,832,000
2015	2,503,000	3,148,000	5,651,000
2016-2020	13,855,000	15,277,000	29,132,000
2021-2025	18,045,000	11,850,000	29,895,000
2026-2030	18,115,000	7,104,000	25,219,000
2031-2033	15,670,000	1,720,561	17,390,561
	<u>\$ 72,081,000</u>	<u>\$52,541,561</u>	<u>\$ 124,622,561</u>

Loans Payable

As of June 30, 2010 and 2009, the loans payable consisted of the following:

	2010	2009
State Revolving Fund (SRF) Loan – Stable 1.0 MG Tank, last installment 2029. Interest rate – .130 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – March 15, 2009	\$ 5,693,863	\$ -
State Revolving Fund (SRF) Loan – Poipu Road 16 Inch Main Replacement, last installment 2027. Interest rate – .160 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – January 15, 2007. Original amount - \$5,595,979.	4,514,574	4,776,344
State Revolving Fund (SRF) Loan – 16 Kaunualii Highway 12 Inch Main Replacement, last installment 2029. Interest rate – .160 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – August 15, 2009. Original amount - \$3,758,412.	3,758,412	-
State Revolving Fund (SRF) Loan – 16 Inch Waterline Replacement along Kuhio Highway, Leho Drive to North Papaloa Road, last installment 2026. Interest rate – .160 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – August 15, 2005. Original amount - \$2,481,289.	1,946,707	2,066,735

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

6. Long-Term Liabilities (continued)

Loans Payable (continued)

	2010	2009
State Revolving Fund (SRF) Loan – Waha, Wawae & Niho Roads Main Replacement, last installment 2029. Interest rate – .160 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – August 15, 2009. Original amount - \$1,844,718.	\$ 1,844,718	\$ -
State Revolving Fund (SRF) Loan – Kapilimao 0.5 MG Tank, last installment 2030. Interest rate – .210 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – January 15, 2010. Original amount - \$1,720,255.	1,720,255	-
State Revolving Fund (SRF) Loan – Damage Repairs to Kokolau Tunnel, last installment 2021. Interest rate – 1.37 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – July 15, 2001. Original amount - \$1,755,329.	1,037,942	1,120,726
State Revolving Fund (SRF) Loan – Rehabilitate Lihue Steel Tanks 1 & 2, last installment 2024. Interest rate – .46 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – January 15, 2004. Original amount - \$1,243,017.	997,679	1,061,755
State Revolving Fund (SRF) Loan – Replace Pipeline at Hanapepe River Crossing and Control of Slope; Failure at Hanapepe Well No. 3, last installment 2023. Interest rate – .99 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – July 15, 2003. Original amount - \$1,345,040.	885,947	946,995
State Revolving Fund (SRF) Loan – Ornellas 0.2 MG Tank, last installment 2025. Interest rate – .58 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – January 15, 2005. Original amount - \$809,398.	640,511	681,272
State Revolving Fund (SRF) Loan – Kekaha Well, last installment 2022. Interest rate – 1.01 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – April 15, 2002. Original amount - \$1,097,536.	585,964	631,670

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

6. Long-Term Liabilities (continued)

Loans Payable (continued)

	<u>2010</u>	<u>2009</u>
State Revolving Fund (SRF) Loan – Rehabilitation of 27 Inch Steel Pipeline – Hanapepe - Eleele Water System, last installment 2023. Interest rate – .99 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – July 15, 2003. Original amount - \$691,134.	\$ 493,763	\$ 527,783
State Revolving Fund (SRF) Loan – Wailua Homesteads Well No. 3, last installment 2024. Interest rate – .54 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – March 15, 2004. Original amount - \$418,967.	<u>298,229</u>	<u>318,684</u>
	<u>\$ 24,418,564</u>	<u>\$ 12,131,964</u>

The approximate annual debt service requirements through 2015 and in five-year increments thereafter to maturity as of June 30, 2010 are as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,348,000	\$ 844,000	\$ 2,192,000
2012	1,397,000	825,000	2,222,000
2013	1,403,000	774,000	2,177,000
2014	1,408,000	722,000	2,130,000
2015	1,414,000	671,000	2,085,000
2016-2020	7,163,000	2,568,000	9,731,000
2021-2025	6,624,000	1,273,000	7,897,000
2026-2030	<u>3,661,564</u>	<u>273,513</u>	<u>3,935,077</u>
	<u>\$ 24,418,564</u>	<u>\$ 7,950,513</u>	<u>\$ 32,369,077</u>

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

6. Long-Term Liabilities (continued)

Capital Lease Obligation

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 is 15 years and 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. The Department commenced water purchases on January 1, 2006. This arrangement has been recorded as a capital lease in the accompanying basic financial statements.

The capital lease obligation is amortized at an implicit rate of approximately 6.0 percent. The annual requirements to amortize capital lease obligation as of June 30, 2010 are approximately as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30:			
2011	\$ 483,000	\$ 309,000	\$ 792,000
2012	513,000	279,000	792,000
2013	545,000	247,000	792,000
2014	579,000	213,000	792,000
2015	615,000	177,000	792,000
2016-2019	2,598,830	305,000	2,903,830
	<u>\$ 5,333,830</u>	<u>\$ 1,530,000</u>	<u>\$ 6,863,830</u>

The utility plant related to the SWTP facility approximated \$7,181,000 as of June 30, 2010 and 2009. The accumulated provision for depreciation related to the SWTP facility approximated \$2,412,000 and \$1,881,000 as of June 30, 2009 and 2008, respectively.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

6. Long-Term Liabilities (continued)

Changes in long-term liabilities

Long-term liability activity for the years ended June 30, 2010 and 2009 was as follows:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Approximate amounts due within one year
Bonds payable:					
General obligation bonds	\$ 12,530,000	\$ 60,000,000	\$ 449,000	\$ 72,081,000	\$ 470,000
Deferred costs:					
For issuance premiums	248,837	-	13,608	235,229	-
On refunding	(424,794)	-	(38,551)	(386,243)	-
Total bonds payable	12,354,043	60,000,000	424,057	71,929,986	470,000
Loans payable	12,131,964	13,126,843	840,243	24,418,564	1,348,000
Total long term debt	24,486,007	73,126,843	1,264,300	96,348,550	1,818,000
Compensated absences	1,095,897	517,121	638,607	974,411	502,000
Capital lease obligation	5,789,087	-	455,257	5,333,830	483,000
Total	<u>\$ 31,370,991</u>	<u>\$ 73,643,964</u>	<u>\$ 2,358,164</u>	<u>\$ 102,656,791</u>	<u>\$ 2,803,000</u>
	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Approximate amounts due within one year
Bonds payable:					
General obligation bonds	\$ 12,958,000	\$ -	\$ 428,000	\$ 12,530,000	\$ 449,000
Deferred costs:					
For issuance premiums	262,445	-	13,608	248,837	-
On refunding	(463,345)	-	(38,551)	(424,794)	-
Total bonds payable	12,757,100	-	403,057	12,354,043	449,000
Loans payable	12,797,952	59,081	725,069	12,131,964	727,000
Total long term debt	25,555,052	59,081	1,128,126	24,486,007	1,176,000
Compensated absences	1,140,000	570,670	614,773	1,095,897	492,000
Capital lease obligation	6,217,087	-	428,000	5,789,087	455,000
Total	<u>\$ 32,912,139</u>	<u>\$ 629,751</u>	<u>\$ 2,170,899</u>	<u>\$ 31,370,991</u>	<u>\$ 2,123,000</u>

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

7. Net Assets

At June 30, 2010 and 2009, net assets consisted of the following:

	<u>2010</u>	<u>2009</u>
Invested in Capital Assets, Net of Related Debt:		
Net property, plant and equipment	\$ 166,644,477	\$ 149,511,005
Less: Long term debt, net	(96,348,550)	(24,486,007)
Less: Capital lease obligation	(5,333,830)	(5,789,000)
Add: Unspent debt proceeds	<u>59,980,429</u>	<u>2,725,763</u>
	<u>124,942,526</u>	<u>121,961,761</u>
Restricted for Capital Activity and Debt Service:		
FRC net assets	5,309,341	6,005,603
Restricted cash	276,429	21,763
Restricted investments	59,704,000	2,704,000
Less:		
Accrued interest payable	(1,332,532)	(444,056)
Unspent debt proceeds	<u>(59,980,429)</u>	<u>(2,725,763)</u>
	<u>3,976,809</u>	<u>5,561,547</u>
Unrestricted	<u>16,533,464</u>	<u>9,964,927</u>
Total net assets	<u><u>\$ 145,452,799</u></u>	<u><u>\$ 137,488,235</u></u>

As of June 30, 2010 and 2009, FRC net assets consisted of the following:

	<u>2010</u>	<u>2009</u>
FRC assets restricted for utility plant construction:		
Cash	\$ 1,304,738	\$ 484,641
Equity interest in pooled investments	4,250,588	5,841,486
Accrued interest receivable	<u>52,872</u>	<u>64,653</u>
	5,608,198	6,390,780
FRC liabilities	<u>(298,857)</u>	<u>(385,177)</u>
FRC net assets	<u><u>\$ 5,309,341</u></u>	<u><u>\$ 6,005,603</u></u>

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

7. Net Assets (continued)

Additions to the FRC Fund amounted to approximately \$366,000 and \$549,000 for the years ended June 30, 2010 and 2009, respectively, and are included as contributions on the accompanying statements of revenues, expenses and changes in net assets.

8. Employees' Retirement System

a. Description of Plan

All eligible employees of the State and counties are required by Hawaii Revised Statutes (HRS) Chapter 88, to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Policy officers, firefighters, judges, elected officials, and person employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten year credited service under the contributory and noncontributory plans, respectively.

Both plan options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

8. Employees' Retirement System (continued)

a. Description of Plan (continued)

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited services or age 55 and 30 years of credit service. Members will receive a benefit multiplier of 2 percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 are required to join the new hybrid plan.

b. Funding Policy

Most covered employees of the contributory option are required to contribute 7.8 percent of their salary. Police officers, firefighters, investigators of the department of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2 percent of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The ERS provides basic pension benefits to individuals receiving pensions. Employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded accrued liability of the ERS. The ERS uses the entry age normal cost funding method to calculate the unfunded accrued liability. In 2002, the Legislature of the State of Hawaii approved Act 147 that extends the amortization period to liquidate the unfunded liability from 15 years to 29 years.

The Department's payroll for employees covered by the plan was approximately \$4,260,000 and \$4,382,000 for 2010 and 2009, respectively. The payroll for all of the Department's employees was approximately \$4,424,000 and \$4,476,000 for 2010 and 2009, respectively. The Department is required to contribute an actuarially determined amount to the ERS. The Department's contributions requirements as of June 30, 2010, 2009 and 2008 were approximately \$639,000, \$655,000 and \$617,000, respectively. The contribution rate was 15.00 percent for the years ended June 30, 2010 and 2009.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

9. Post-Retirement Health Care and Life Insurance Benefits

a. Plan Description

The Department provides certain other postemployment benefits (OPEB) other than pensions to all qualified employees. Pursuant to Chapter 87A of the Hawaii Revised Statutes (HRS), the Department contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF). The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF currently provides medical, dental, vision, and life insurance benefits. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

The eligibility requirements for retiree health benefits are as follows:

For employees hired before July 1, 1996, the Department pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer 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 retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the Department pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the Department pays the entire health care premium.

b. Funding Policy

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

The Department is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over 30 years. The current ARC rate for the Department is 15.3% of annual covered payroll.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

9. Post-Retirement Health Care and Life Insurance Benefits (continued)

c. Annual OPEB Cost

For 2010 and 2009, the Department's annual OPEB cost of approximately \$755,000 and \$728,000, respectively, was equal to ARC. The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2010, 2009 and 2008 were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2008	\$ 704,000	100.0%	\$ -
2009	728,000	100.0%	-
2010	755,000	100.9%	(7,000)

At June 30, 2009, the Department's post-retirement healthcare payable of \$238,509 is considered a short term difference and has been included in the respective annual OPEB contributions in accordance with GASB Statement No. 45.

d. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2009, the effective date of the biennial actuarial valuation, was as follows:

Actuarial accrued liability (AAL)		\$13,531,000
Assets		<u>930,000</u>
Unfunded AAL (UAAL)		<u><u>\$12,601,000</u></u>
	<u>2010</u>	<u>2009</u>
Covered payroll	4,424,000	4,476,000
UAAL as a percentage of covered payroll	285%	282%

Actuarial valuations of an ongoing plan involve estimate of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes of the financial statements, presents multiyear trend

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

9. Post-Retirement Healthcare and Life Insurance Benefits (continued)

d. Funded Status and Funding Progress (continued)

information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

e. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions from the Department's actuarial valuation were as follows:

Valuation date	July 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	7%
Healthcare cost trend rate:	
Medical and prescription drug	10.5% initial; 5% ultimate
Dental	6% initial; 4% ultimate
Vision	4% initial; 3% ultimate
Medicare Part B	14.6% initial; 5% ultimate
Projected salary increases	3.5%

The number of participants as of July 1, 2009, the effective date of the biennial OPEB valuation, follows. There have been no significant changes in the number of covered or the type of coverage since that date.

Active employees	74
Retired employees	30
Deferred vested employees	4
Total	<u>108</u>

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

10. Deferred Compensation Plan

The Department offers its employees, through the County, a deferred compensation plan established 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 exclusive benefit of participants and their beneficiaries and are not considered assets of the County or the Department.

In accordance with GASB Statement 32, *Accounting and Financial Reporting Code Section 457 – Deferred Compensation Plans*, 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.

11. Commitments and Contingencies

a. Sick Leave

Accumulated sick leave as of June 30, 2010 and 2009 was approximately \$2,121,000 and \$2,561,000, respectively. 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.

b. Insurance

The Department is fully self-insured for workers' compensation claims. Such claims are reported to and managed by the County. The Department provides reserves for claims not covered by insurance that in the opinion of counsel 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, 2010 and 2009, the workers' compensation liability amounted to \$210,000 and is recorded in accounts payable and accrued liabilities on the accompanying statements of net assets.

Department of Water, County of Kauai

Notes to Basic Financial Statements
June 30, 2010 and 2009

11. Commitments and Contingencies (continued)

c. 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 of Hawaii Department of Health on behalf of the United States Environmental Protection Agency. Management indicated that the Department is in full compliance with the requirements of the Act and is not aware of any matters under the Act that materially affected or is currently affecting the Department's customer service area.

d. 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 will not have a material adverse effect on the Department's financial position or results of operations.

e. Other

Other commitments, primarily for utility plant construction, approximated \$16,118,000 and \$8,456,000 at June 30, 2010 and 2009, respectively.

12. 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 amounts charged approximated \$925,000 and \$818,000 in 2010 and 2009, respectively.

13. New Pronouncements for Financial Reporting

In June 2009, GASB issued *Statement No. 59 "Financial Investments Omnibus"* – This Statement provides accounting and financial reporting guidance related to certain financial instruments and external investment pools. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The Department has not yet analyzed the potential effect on the financial statements, if any, of adopting Statement No. 59.

Department of Water, County of Kauai

Schedule of Funding Progress for the Hawaii Employer-Union Health Benefits Trust Fund

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2007	\$ -	\$8,465,000	\$8,465,000	0%	\$ 4,585,000	185%
7/1/2009	930,000	13,531,000	12,601,000	7%	4,424,000	285%

See accompanying independent auditor's report.

Department of Water, Schedule I

Schedule I

Supplemental Schedule of Utility Plant in Service
For the Year Ended June 30, 2009

	June 30, 2009				June 30, 2010
	Balance	Adjustments	Additions	Retirements	Balance
Cost Basis:					
Water Utility Plant:					
Source	\$ 8,019,824	\$ -	\$ -	\$ -	\$ 8,019,824
Pumping	32,177,485	-	1,756,180	(4,683)	33,928,982
Water Treatment	9,345,284	-	68,998	(15,095)	9,399,187
Transmission & Distribution	143,281,534	-	18,900,647	(1,093,794)	161,088,387
General	9,727,431	-	176,385	(229,227)	9,674,589
Held for Future Use	1,283,036	-	-	-	1,283,036
	<u>203,834,594</u>	<u>-</u>	<u>20,902,210</u>	<u>(1,342,799)</u>	<u>223,394,005</u>
Land and Land Rights:					
Source	20,274	-	-	-	20,274
Pumping	381	-	-	-	381
Water Treatment	150	-	-	-	150
Transmission & Distribution	499,259	-	-	-	499,259
	<u>520,064</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>520,064</u>
Total	<u>\$ 204,354,658</u>	<u>\$ -</u>	<u>\$ 20,902,210</u>	<u>\$ (1,342,799)</u>	<u>\$ 223,914,069</u>
Accumulated Depreciation					
Water Utility Plant:					
Source	\$ 3,507,325	\$ -	\$ 177,114	\$ -	\$ 3,684,439
Pumping	14,205,041	(863)	1,241,915	(4,683)	15,441,410
Water Treatment	3,019,215	5,747	706,233	(15,095)	3,716,100
Transmission & Distribution	45,963,071	651,786	2,676,251	(1,093,794)	48,197,314
General	4,795,912	-	418,177	(229,227)	4,984,862
Held for Future Use	226,941	-	25,041	-	251,982
Total	<u>\$ 71,717,505</u>	<u>\$ 656,670</u>	<u>\$ 5,244,731</u>	<u>\$ (1,342,799)</u>	<u>\$ 76,276,107</u>

See accompanying independent auditor's report.

Department of Water, County of Kauai

Schedule II

Supplemental Schedule of Selective Account Classifications (in 000's)
For the Five Years Ended June 30, 2010

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Balance Sheet:</u>					
Utility plant in service	\$ 223,914	\$ 204,355	\$ 194,059	\$ 178,432	\$ 161,833
Net Assets:					
Invested in capital assets, net	\$ 124,943	\$ 121,962	\$ 107,914	\$ 100,127	\$ 94,931
Restricted for capital activity					
and debt service	3,977	5,561	6,544	5,234	5,258
Unrestricted	16,533	9,965	16,417	17,839	16,950
Total	\$ 145,453	\$ 137,488	\$ 130,875	\$ 123,200	\$ 117,139
<u>Income Statement:</u>					
Resources:					
Water sales	\$ 18,772	\$ 17,533	\$ 17,200	\$ 15,128	\$ 13,219
Other	1,014	842	736	814	565
Total	19,786	18,375	17,936	15,942	13,784
Operating Expenses:					
Depreciation	5,898	5,182	4,580	5,425	5,104
Power and pumping	3,178	3,139	3,740	3,124	3,825
Transmission and distribution	3,441	3,221	3,655	3,357	2,939
Administrative and general	4,299	4,192	4,437	4,330	3,248
Accounting and collection	584	576	533	482	453
All other	1,054	1,134	1,286	1,069	589
Total	18,454	17,444	18,231	17,787	16,158
Non-Operating (Expense) Income	(1,031)	(330)	17	30	266
Contributions	7,664	6,013	7,952	7,877	4,043
Increase in net assets	\$ 7,965	\$ 6,614	\$ 7,674	\$ 6,062	\$ 1,935

See accompanying independent auditor's report.



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 the financial statements of the Department of Water, County of Kauai (the Department) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 30, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings that we consider to be significant deficiencies in internal controls over financial reporting. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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*.

This report is intended solely for the information and use of the Board of Water Supply, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMH LLP

KMH LLP

Honolulu, Hawaii
November 30, 2010



Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the Department of Water, County of Kauai (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Department's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not

for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Water Supply, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMH LLP

KMH LLP

Honolulu, Hawaii
November 30, 2010

Department of Water, County of Kauai

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

<u>Federal Grantor Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Award</u>	<u>Current Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Remaining Balance</u>
Environmental Protection Agency--	66.468	99-6000449				
Passed-Through State Department of Health--						
Drinking Water Treatment Revolving Loan Fund:						
Kekaha Well DW406-0001			\$ 862,822	\$ -	\$ 799,361	\$ 63,461
Wailua Homesteads Well No.3 DW413-0002			418,967	-	397,737	21,230
Poipu Road 16" Main Replacement DW408-0002			5,158,886	-	4,899,230	259,656
Stable 1.0 MG Tank & Connection Pipeline DW400-0001			8,082,617	3,045,790	6,419,869	1,662,748
Kaumuali'i Highway 12-inch Main Replacement DW406-0005			4,933,117	3,757,196	3,757,196	1,175,921
Waha, Wawae, and Niho Roads Main Replacement DW434-0003			2,118,618	1,863,600	1,863,600	255,018
Kapilimao 0.5 MG Tank DW406-0003			<u>4,089,893</u>	<u>2,713,229</u>	<u>2,713,229</u>	<u>1,376,664</u>
Subtotal			25,664,920	11,379,815	20,850,222	4,814,698
Drinking Water Treatment Revolving Loan Fund-- American Recovery Reinvestment Act:						
Lihue Pipeline Replacement Town DW400-0002			<u>1,949,612</u>	<u>1,949,612</u>	<u>1,949,612</u>	<u>-</u>
Total			<u>\$27,614,532</u>	<u>\$13,329,427</u>	<u>\$ 22,799,834</u>	<u>\$ 4,814,698</u>

Department of Water, County of Kauai

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Department and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Loan Security

The Department has pledged its future water revenues as security for repayment of the loans. See Note 6 of the financial statements for further discussion about the loans.

Department of Water, County of Kauai

Schedule of Findings
For the Year Ended June 30, 2010

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? reported Yes None

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Reported Yes None

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
66.468	Drinking Water Treatment Revolving Loan Fund

Dollar threshold used to distinguish between type A and type B programs? \$340,000

Auditee qualified as low-risk auditee? Yes No

Department of Water, County of Kauai

Schedule of Findings
For the Year Ended June 30, 2010

Section II – Financial Statement Findings

Finding No.: 10-01

Maintenance Management Information System – Time Control/Job Costing

Based on discussions with management, the payroll module of the Great Plains Dynamic Project Accounting System was still pending and remains in the testing phase of the implementation process with ongoing programming modifications. Upon implementation of the module, the Department has planned to complete the interface of the accounting system and the work order aspect of MPET to help facilitate the job costing process. Delays are in part due to expansion of implementation to include an electronic timesheet system.

Recommendation

We recommend that the Department continue with its efforts to fully integrate MMIS with its financial reporting system.

Finding No.: 10-02

Accounting System

The Department previously maintained an entirely manual accounting system, with the exception of billing and payroll functions, which are out-sourced. Subsequently, the Department installed a financial accounting software package and has implemented all relevant modules except for payroll and project accounting. Maintenance of the manual portions of the accounting system requires additional effort by accounting personnel. The timely preparation and review of financial statements and related information are essential to the discharge of management's duties.

Recommendation

We recommend that the Department continue with its efforts to fully implement the payroll module and its assessment of implementing a project accounting module.

Department of Water, County of Kauai

Schedule of Findings
For the Year Ended June 30, 2010

Section III – Findings and Questioned Costs for Federal Awards

No matters were reported.

Section IV – Summary Schedule of Prior Audit Findings

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the year ended June 30, 2009 dated December 8, 2009.

<u>Recommendations</u>	<u>Status</u>
09-01 Maintenance Management Information System – Time Control/Job Costing	
<p>Currently, the operations supervisor enters the time and materials spent on each work order into the MMIS system. Manual timesheets are the source documents used for this input, as well as for payroll processing; however, there is no reconciliation between what was inputted into MMIS and what was recorded on the manual timesheets. This may lead to the MMIS system using incorrect data or the continued misunderstanding of how time should be charged to particular work orders.</p>	<p>Partially accomplished. Based on discussions with management, the payroll module of the Great Plains Dynamic Project Accounting System was still pending and remains in the testing phase of the implementation process with ongoing programming modifications. Upon implementation of the module, the Department has planned to complete the interface of the accounting system and the work order aspect of MPET to help facilitate the job costing process. Delays are in part due to expansion of implementation to include an electronic timesheet system. Full implementation as planned will provide the Department with capabilities to resolve the identified deficiency. See Reference No. 10-01.</p>
<p>We recommend that the Fiscal Department obtain a report from MMIS to enter into the manual work orders. The costing should then be compared with labor distribution reports, prepared from the manual timesheets, and differences resolved by the respective department. An ideal alternative would be a MMIS procedure that reconciles the system input with the manual timesheets to identify discrepancies at the front-end of the process.</p>	

Department of Water, County of Kauai

Schedule of Findings

For the Year Ended June 30, 2010

Recommendations

Status

09-02 Accounting System

The Department previously maintained an entirely manual accounting system, with the exception of billing and payroll functions, which are out-sourced. Subsequently, the Department installed a financial accounting software package and has implemented all relevant modules except for payroll and project accounting. Maintenance of the manual portions of the accounting system requires additional effort by accounting personnel. The timely preparation and review of financial statements and related information are essential to the discharge of management's duties.

We recommend that the Department continue with its efforts to fully implement the payroll module and its assessment of implementing a project accounting module.

Partially accomplished. To date, the fixed assets, accounts payable and accounts receivable modules of Great Plains have been fully implemented. The Department continues with its efforts to fully implement the payroll module which will integrate data to automate the Department's labor and equipment distribution reports. Implementation of the project accounting model is currently being evaluated. See Reference No. 10-02.