

**BOARD OF WATER SUPPLY of the COUNTY OF KAUAI**

**REGULAR MEETING**

Second Floor, Microbiology Lab Bldg

Kaua'i County Department of Water

4398 Pua Loke Street, Lihu'e, Kaua'i, Hawai'i 96766

**THURSDAY, NOVEMBER 20, 2014**

**10:00 a.m.**

**Or soon thereafter**

**A. CALL TO ORDER**

**B. ROLL CALL**

**C. ACCEPTANCE OF AGENDA**

**D. MEETING MINUTES**

**Review and approval of Executive Session:**

Executive Session – October 23, 2014

**E. CORRESPONDENCE/ANNOUNCEMENTS**

1. Correspondence from Mr. Kamuela Cobb-Adams, County Housing Director dated November 7, 2014, regarding Lima Ola Workforce Housing Project, Eleele Kauai; Water Master Plan

**F. BOARD COMMITTEE REPORTS**

**G. OLD BUSINESS**

1. Final Audit of Financial Statements for FY 2013-2014

**H. NEW BUSINESS**

1. Manager's Report No. 15-18 – Grant of Easement for Kenneth A. Souza Jr. and Donna M. Souza, for the “Construction Plan for Detector Check Meter and Backflow Preventer”, TMK (4) 3-3-13:031, Puhi, Lihue District, Kauai, Hawaii

**I. STAFF REPORTS**

**MONTHLY**

1. Discussion and Receipt of the Kaua'i County Water Department's Statement of Revenues and Expenditures
2. Discussion and Receipt of the Report by the Public Relations Specialist on Public Relations Activities
3. Discussion and Receipt of the Chief of Operation's Summary Report on Operational Activities
4. Discussion and Receipt of the Manager and Chief Engineer's Monthly Update Regarding Activities of Note of the DOW
  - a. Report of the BAB pay down as of October 2014

BOARD OF WATER SUPPLY

**REGULAR MEETING**

November 20, 2014

**J. EXECUTIVE SESSION**

*Pursuant to H.R.S. §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 H.R.S. §92-4 and shall be limited to those items described in H.R.S. §92-5(a).*

1. Pursuant to Hawaii Revised Statutes (HRS) Section 92-4, 92-5(a)(4), the purpose of this executive session is to review executive session minutes dated **October 23, 2014**. This consultation involves the consideration of the powers, duties, privileges, immunities, and/or liabilities of the Board and the Department as they relate to this agenda item.
2. Pursuant to Hawaii Revised Statutes Sections 92-4, 92-5(a)(4), and the purpose of this executive session is to provide the Board of Water with a briefing regarding the process of hiring a new Manager and Chief Engineer. Furthermore, this briefing and consultation with the Board of Water's legal counsel involves the powers, duties, privileges and/or liabilities of the Board of Water as it relates to this agenda item.

**K. TOPICS FOR NEXT WATER BOARD MEETING (*December 2014*)**

1. Manager's Report No. 15-14 - Discussion and Possible Action on the Manager's Recommendation regarding the Reallocation of Water Capacity Approved for Industrial Use from Eleele Industrial Park Subdivision, TMK: 2-1-01:51 to 28-acre Eleele Urban Residential Development, TMK: 2-2-1:Por. 3, A&B Properties, Inc., Eleele, Kaua'i
2. Discussion and Possible Action of Proposed Delegation of a Meter Restriction Board Policy No. 30
3. Election of Officers for 2015

**L. TOPICS FOR FUTURE WATER BOARD MEETINGS**

1. Manager's Report No. 11-28 – Discussion and Possible Action regarding Part 5 of the Rules, Facilities Reserve Charge – Proposed New Rule, SBRRB Results (awaiting Part 4 Section VII, Facilities Reserve Charge to be submitted together)
2. Manager's Report No. 14-24 – Discussion and Possible Action regarding Part 4 Section I of the Rules, General Use Rates Proposed Amendments, SBRRB Results (awaiting Part 4 Section VII, Facilities Reserve Charge to be submitted together)

**M. UPCOMING EVENTS**

1. DOW Annual Meeting (*December 12, 2014*)
2. AWWA Hawaii Section, Honolulu, HI (*February 3-5, 2015*)
3. AWWA Annual Conference, Anaheim, CA (*June 7-10, 2015*)

**N. NEXT WATER BOARD MEETING**

1. Wednesday, December 3, 2014 – *Special Board Meeting, 1:00 pm*
2. Thursday, December 18, 2014, 10:00 a.m.
3. Thursday, January 22, 2015, 10:00 a.m.
4. Thursday, February 19, 2015, 10:00 a.m.
5. Thursday, March 19, 2015, 10:00 a.m.

**O. ADJOURNMENT**



# Correspondence

**Bernard P. Carvalho, Jr.**  
Mayor

**Nadine K. Nakamura**  
Managing Director



**Kamuela Cobb-Adams**  
Housing Director

**KAUA'I COUNTY HOUSING AGENCY**  
County of Kaua'i, State of Hawai'i  
Pi'ikoi Building 4444 Rice Street Suite 330 Lihue Hawai'i 96766  
TEL (808) 241-4444 FAX (808) 241-5118  
**14 NOV 12 P2:11**

November 7, 2014

**DEPT. OF WATER  
COUNTY OF KAUAI**

Chairman Clyde Nakaya  
Board of Water Supply, Kaua'i County  
P. O. Box 1706  
Lihue, HI 96766

Dear Chairman Nakaya,

Subject: Lima Ola Workforce Housing Project, 'Ele'ele Kaua'i; Water Master Plan

On behalf of Mayor Bernard P. Carvalho, Jr. and the Kaua'i County Housing Agency, I'd like to request an opportunity to present the Lima Ola Project and discuss how it relates to the Hanapēpē/'Ele'ele water system at the Water Board meeting on December 18, 2014.

The Kaua'i County Housing Agency has completed a Master Plan and preliminary engineering for Lima Ola which is planned to provide 550 housing units for families and individuals whose incomes range from below 80% to 140% of the Kaua'i Median Income. The project is to be developed in 4 phases over the next 20 years. Given the great demand for affordable housing for Kaua'i's workforce and low income individuals, we are striving to start Phase 1 construction in the next few years.

Water is a critical item necessary to meet this goal and a preliminary Water Master Plan has been completed. The DOW staff has reviewed and commented on this WMP and we would request an opportunity to discuss the project and the water master plan further with the Board.

Should you have any questions, please feel free to contact me at anytime.

Aloha and mahalo,

A handwritten signature in black ink, appearing to read "ke Ca".

Kamuela Cobb-Adams, Director

Cc: Mayor Bernard P. Carvalho, Jr.



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**old BUSINESS**

**Department of Water  
County of Kauai**

Financial Statements  
As of June 30, 2014 and 2013  
Together with Independent Auditor's Report

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Water, County of Kauai, as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the Hawaii Employer-Union Health Benefits Trust Fund on pages 4 through 8 and page 42, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department'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.

The accompanying Supplemental Schedules I and II are 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. Such information has been subjected to the auditing procedures applied in the audits 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 auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information in Schedules I and II is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

*KMH LLP*

KMH LLP

Honolulu, Hawaii

November 5, 2014

# **Department of Water, County of Kauai**

Management's Discussion and Analysis  
June 30, 2014

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 June 30, 2014 were \$278.1 million (M) and exceeded liabilities by \$175.9M.
- Total net position at June 30, 2014 increased by \$3.2M or 2%, and is basically the result of the current year's operations and capital contributions.
- Total cash and investments at June 30, 2014 were \$56.9M, an increase of \$400 thousand (K) from the prior year.
- The Department's liquidity ratio is 2.7 for FY 2014 and 2.4 for FY 2013.
- The debt to equity ratio, including capital leases, is 55% for FY 2014 and 57% for FY 2013.
- Operating revenues for FY 2014 were \$28.5M, an increase of \$500K from FY 2013. The Department implemented the 3<sup>rd</sup> year water rate increase of 11.2% as approved in the water rate study. On another side, the fiscal year to date billed water usage dropped by 500MG or (11%) as compared to prior year. The net result was a 2% revenue increase.
- Operating expenses for the current year totaled \$24.4M, a \$3M increase as compared to the prior year. Details of this increase are further explained on page 7 and 8.
- Long-term debt at June 30, 2014 decreased by \$605K from the prior year. In the current year, the Department received \$3.5M in new SRF loan proceeds and made \$4.1M in principal payments for both the State Revolving Fund (SRF) loans and Bonds which resulted in the net decrease.

## **Department of Water, County of Kauai**

Management's Discussion and Analysis  
June 30, 2014

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

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

## **Department of Water, County of Kauai**

Management's Discussion and Analysis  
June 30, 2014

### **Financial Analysis**

Statements of Net Position - Condensed  
June 30, 2014 and 2013

	2014	2013 (As Restated)	% Change
<b>Assets:</b>			
Current and Other Assets	\$ 25,325,084	\$ 27,475,400	(8%)
Capital Assets, net	216,331,945,	216,007,163	2%
Other Non-current Assets	36,348,847	34,967,205	4%
Deferred Outflow – Deferred Refunding Costs	<u>82,476</u>	<u>98,758</u>	(16%)
Total assets and deferred outflows	<u>\$ 278,088,352</u>	<u>\$ 278,548,526</u>	-
<b>Liabilities:</b>			
Current Liabilities	\$ 9,515,738	\$ 11,684,211	(19%)
Long-term Debt, net	89,476,016	90,489,567	(1%)
Other Long-term Liabilities	<u>3,195,196</u>	<u>3,699,110</u>	(14%)
Total liabilities	<u>\$ 102,186,950</u>	<u>\$ 105,872,888</u>	(3%)
<b>Net Position:</b>			
Invested in Capital Assets, net of related debt	\$ 142,308,655	\$ 142,804,876	(1%)
Restricted	172,932	969,667	(82%)
Unrestricted	<u>33,419,815</u>	<u>28,901,095</u>	16%
Total net position	<u>\$ 175,901,402</u>	<u>\$ 172,675,638</u>	2%

Statements of Revenues, Expenses and Change in Net Position - Condensed  
June 30, 2014 and 2013

	2014	2013 (As Restated)	% Change
<b>Operating Revenues</b>			
Operating Revenues	\$ 28,484,059	\$ 27,964,725	2%
Operating Expenses	<u>24,439,379</u>	<u>21,473,066</u>	14%
Income from operations	<u>4,044,680</u>	<u>6,491,659</u>	(38%)
<b>Non Operating Expenses</b>			
Non Operating Expenses	(3,659,154)	(3,621,446)	1%
Capital Contributions	<u>2,840,238</u>	<u>3,483,083</u>	(18%)
Change in net position	<u>\$ 3,225,764</u>	<u>\$ 6,353,296</u>	(49%)

## **Department of Water, County of Kauai**

Management's Discussion and Analysis  
June 30, 2014

The Department's financial condition remains positive at the year-end. As described earlier, net position 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. Total assets and deferred outflows at year-end for the Department was \$278.1M which exceeded liabilities by \$175.9M (net position). Total net position increased by \$3.2M, or 2% higher from FY 2013.

Total cash and investments (including restricted funds) increased by \$450K from \$56.5M in FY 2013 to \$56.9M in FY 2014.

The Department's liquidity ratio is (current assets divided by current liabilities) 2.7 for FY 2014 and 2.4 for FY 2013.

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, including capital leases, for FY 2014 and FY 2013 was 55% and 57%, respectively. The debt service coverage, including capital leases, for FY 2014 is 1.85 which is above the Department's debt service coverage target of 1.5.

The increase in net position for FY 2014 amounted to \$3.2M and is basically a result of the current year's operations and capital contributions. Key elements of this increase are as follows:

FY 2014 operating revenues exceeded our operating expenses by \$4.0M while the non-operating (investment) income was exceeded by non-operating (interest) expenses by \$3.7M. This resulted in income before contributions of \$400K. Capital contributions totaled \$2.8M so in total, the change in net position was \$3.2M.

Total operating expenses increased from \$21.5M in FY 2013 to \$24.4M in FY 2014, an increase of \$3.0M or 14% higher. Due to negotiated union contracts, salaries and wages was up by a total of \$499K or 11% higher and a corresponding increase in employee pension and benefits amounted to \$192K. In addition, Engineering allocations previously capitalized were charged to operating expenses. Following are the major components of the operating expenditures:

Depreciation expenses increased by \$400K; this is attributable to capitalized assets added to property, plant and equipment last year.

Administrative and general expenses increased by \$1.8M or 36% higher from the previous year. There were several components of this increase and these were: Outside Services - \$657K, the two main projects were the implementations of Financial Accounting System and Kauai Water Use & Development Plan Update; County Contra Account expenditure - \$271K; Insurance & Workers Compensation - \$287K, Settlement Claims - \$175K, and the remaining can be accounted from increased Salaries & Wages and corresponding employee pensions and benefits.

## **Department of Water, County of Kauai**

Management's Discussion and Analysis  
June 30, 2014

Power and pumping expenses increased by \$296K or 8% higher from the previous fiscal year. One main increase was due to the increased cost of purchased power for pumping which was \$92K higher from last year. Increased salaries and wages plus related employee benefits was also a factor.

Transmission and distribution expenses increased by \$384K. A water system major repair for \$100K was noted in addition to the Engineering Allocations charges which were previously capitalized in the prior years.

Source of supply expenses increased by \$211K. A reclassification of an "existing" capital project and "cancelled" during the fiscal year was expensed to source of supply expenses. This contributed to the increase in this category.

Capital contributions, which are included in non-operating income amounted to \$2.8M for FY 2014, a decrease of \$643K or (18%) as compared from last year's \$3.5M in capital contributions.

### **Capital Assets and Debt Administration**

Capital assets are made up of property, plant and equipment. As of June 30, 2014, the Department had net capital assets of \$216.3M. Utility plant additions completed in FY 2014 amounted to \$15.2M. Major capital asset additions included:

Eleele Twin Tanks	\$2.3 million
Haena Steel Tank	\$0.7 million
Waipouli Main Replacement	\$2.0 million
Wailua – Houselots Main Replacement	\$4.3 million
Pipelines, Waipouli Hauki, Olohepa Roads	\$1.8 million
Wainiha Booster Pump Building	\$1.3 million

Long-term debt obligations outstanding as of June 30, 2014 amounted to \$93.2M which consisted of \$67.6M in public improvement bonds and \$25.6M in State Revolving Fund (SRF) loans. It was noted earlier that long-term debt decreased by \$605K. The Department made a total of \$4.0M in principal payments for both the State Revolving Fund (SRF) loans and Bond amortization; on the other hand, the Department also received \$3.4M in new SRF loan proceeds which resulted in a net decrease of long term debt obligations. More detailed information about the Department's long-term debt is provided in Note 6 of the notes to the basic financial statements.

## Department of Water, County of Kauai

Statements of Net Position  
June 30, 2014 and 2013

	<u>Assets and Deferred Outflows</u>	
	2014	2013 (As Restated)
Current Assets:		
Cash	\$ 17,968,523	\$ 17,105,705
Equity interest in pooled investments	2,719,567	4,519,250
Receivables:		
Accounts, net of allowance for doubtful accounts of approximately \$281,000 and \$412,000, respectively	1,796,992	2,557,178
Unbilled accounts	1,210,677	1,102,851
Grants and subsidies	591,237	1,278,068
Accrued interest	<u>20,541</u>	<u>16,267</u>
Total receivables	<u>3,619,447</u>	<u>4,954,364</u>
Materials and supplies	931,086	794,114
Prepaid expenses	<u>86,461</u>	<u>101,967</u>
Total current assets	<u>25,325,084</u>	<u>27,475,400</u>
Restricted Assets:		
Facility reserve charge funds:		
Cash	-	739,693
Equity interest in pooled investments	1,734,174	1,924,000
Accounts receivable and other	<u>5,795</u>	<u>5,606</u>
Total facility reserve charge funds	<u>1,739,969</u>	<u>2,669,299</u>
Bond funds:		
Cash	278,625	380,692
Equity interest in pooled investments	22,711,290	24,649,550
Accrued interest	<u>98,283</u>	<u>107,858</u>
Total bond funds	<u>23,088,198</u>	<u>25,138,100</u>
Total restricted assets	<u>24,828,167</u>	<u>27,807,399</u>
Equity Interest in Pooled Investments - Noncurrent	11,520,680	7,159,806
Utility Plant:		
In service	308,467,928	293,790,071
Accumulated depreciation	<u>(99,659,170)</u>	<u>(93,031,575)</u>
Total utility plant	<u>208,808,758</u>	<u>200,758,496</u>
Construction work in progress	<u>7,523,187</u>	<u>15,248,667</u>
Total property, plant and equipment	<u>216,331,945</u>	<u>216,007,163</u>
Total assets	<u>278,005,876</u>	<u>278,449,768</u>
Deferred Outflow of Resources - Deferred Refunding Costs, net	<u>82,476</u>	<u>98,758</u>
Total assets and deferred outflows	<u><u>\$ 278,088,352</u></u>	<u><u>\$ 278,548,526</u></u>

See accompanying notes to basic financial statements.

## **Department of Water, County of Kauai**

Statements of Net Position (continued)

June 30, 2014 and 2013

### **Liabilities and Net Position**

	2014	2013 (As Restated)
<b>Current Liabilities:</b>		
Current portion of long-term debt	\$ 4,385,000	\$ 4,034,944
Current portion of capital lease obligation	623,000	592,000
Accounts payable and accrued liabilities	3,101,877	4,159,999
Contracts payable, including retainages	468,209	1,819,379
Customer advances for construction	37,681	100,319
Accrued vacation and compensatory pay	475,000	479,000
Customer deposits	421,032	494,631
Due to primary government	<u>3,939</u>	<u>3,939</u>
Total current liabilities	9,515,738	11,684,211
Long-Term Debt, Net of Current Portion and Unamortized Premiums	89,476,016	90,489,567
Capital Lease Obligation, Net of Current Portion	2,611,665	3,214,775
Accrued Vacation and Compensatory Pay, Net of Current Portion	<u>583,531</u>	<u>484,335</u>
Total liabilities	<u>102,186,950</u>	<u>105,872,888</u>
<b>Commitments and Contingencies</b>		
<b>Net Position:</b>		
Invested in capital assets, net of related debt	142,308,655	142,804,876
Restricted for capital activity and debt service	172,932	1,077,525
Unrestricted	<u>33,419,815</u>	<u>28,793,237</u>
Total net position	<u>\$ 175,901,402</u>	<u>\$ 172,675,638</u>

See accompanying notes to basic financial statements.

## Department of Water, County of Kauai

Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> (As Restated)
<b>Operating Revenues:</b>		
Water sales	\$ 26,429,465	\$ 25,837,871
Other water revenue:		
Public fire protection service	1,782,210	1,511,190
Other	<u>272,384</u>	<u>615,664</u>
Total operating revenues	<u>28,484,059</u>	<u>27,964,725</u>
<b>Operating Expenses:</b>		
Depreciation and amortization	7,323,987	6,936,653
Administrative and general	6,732,279	4,962,548
Power and pumping	3,909,311	3,613,639
Transmission and distribution	4,131,902	3,747,917
Source of supply	1,479,292	1,267,990
Customer accounting and collection	651,599	688,517
Purification	<u>211,009</u>	<u>255,802</u>
Total operating expenses	<u>24,439,379</u>	<u>21,473,066</u>
Income from operations	<u>4,044,680</u>	<u>6,491,659</u>
<b>Non-Operating Income (Expenses):</b>		
Investment income	241,781	294,022
Interest expense, net of amounts capitalized	<u>(3,900,935)</u>	<u>(3,915,468)</u>
Total non-operating expenses	<u>(3,659,154)</u>	<u>(3,621,446)</u>
Income before contributions	385,526	2,870,213
Capital contributions	<u>2,840,238</u>	<u>3,483,083</u>
Change in net position	3,225,764	6,353,296
Net Position at Beginning of Year, as restated	<u>172,675,638</u>	<u>166,322,342</u>
Net Position at End of Year	<u>\$ 175,901,402</u>	<u>\$ 172,675,638</u>

See accompanying notes to basic financial statements.

## Department of Water, County of Kauai

### Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

	2014	2013 (As Restated)
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 27,081,636	\$ 26,423,289
Cash payments to suppliers for goods and services	(13,359,364)	(10,207,034)
Cash payments to employees for services	(4,878,167)	(4,472,533)
Other cash receipts	<u>2,054,594</u>	<u>2,126,854</u>
 Net cash provided by operating activities	 <u>10,898,699</u>	 <u>13,870,576</u>
 <b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from issuance of public improvement bonds	-	3,100,706
Acquisition and construction of capital assets	(6,209,973)	(11,799,951)
Proceeds from revolving fund loan	3,487,703	400,548
Principal paid on revolving fund loan	(1,670,985)	(1,598,095)
Payments for bond issuance costs	-	(31,010)
Principal paid on public improvement bond maturities	(2,422,000)	(531,000)
Principal paid on capital lease obligation	(572,110)	(544,978)
Cash paid for defeasance of public improvement bond	-	(3,069,696)
Interest paid on long-term debt	(5,312,634)	(5,416,409)
Proceeds from state government capital grants	-	4,080
Proceeds from BAB Subsidy	935,081	1,016,308
Net proceeds from FRC Program	<u>1,073,300</u>	<u>761,300</u>
 Net cash used in capital and related financing activities	 <u>(10,691,618)</u>	 <u>(17,708,197)</u>
 <b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(31,851,410)	(11,856,347)
Sales and maturities of investments	31,544,458	16,805,467
Interest on investments	<u>120,929</u>	<u>487,860</u>
 Net cash (used in) provided by investing activities	 <u>(186,023)</u>	 <u>5,436,980</u>
 Net increase in cash (including restricted cash)	 21,058	 1,599,359
 Cash (including restricted cash),		
Beginning of Year	<u>18,226,090</u>	<u>16,626,731</u>
 Cash (including \$278,625 and \$1,120,385 in restricted cash, respectively), End of Year	 <u>\$ 18,247,148</u>	 <u>\$ 18,226,090</u>

See accompanying notes to basic financial statements.

## Department of Water, County of Kauai

Statements of Cash Flows (continued)  
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013 (As Restated)</u>
Reconciliation of Cash Flows from Operating Activities:		
Income from operations	\$ 4,044,680	\$ 6,491,659
Depreciation and amortization expense	7,323,987	6,936,653
Bad debt (recovery) expense	(55,763)	108,517
(Increase) decrease in assets:		
Accounts receivable, net	815,760	48,075
Unbilled accounts and other receivables	(107,826)	428,826
Materials and supplies	(136,972)	54,045
Prepaid expenses and other assets	15,506	198,535
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(1,022,270)	87,569
Accrued vacation and compensatory pay	95,196	108,607
Post-retirement healthcare benefits payable	-	(848,051)
Due to primary government	-	3,939
Customer deposits	<u>(73,599)</u>	<u>252,202</u>
Net cash provided by operating activities	<u>\$ 10,898,699</u>	<u>\$ 13,870,576</u>

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

The Department received approximately \$838,000 and \$514,000 for the years ended June 30, 2014 and 2013, 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 basic financial statements.

# **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

## **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 July 1, 2013, the Board raised rates an average of 10 percent, the service charge rate an average of 11 percent, and the agricultural service charge rates an average of 6 percent. Effective July 1, 2012, the Board raised rates an average 9 percent and raised the service charge rate an average of 12 percent.

## **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, 2014 and 2013

## **2. Summary of Significant Accounting Policies (continued)**

### **b. Basis of Accounting (continued)**

Effective July 1, 2013, the Department implemented Government Accounting Standards Board (GASB) Statement No. 65, “Items Previously Reported as Assets and Liabilities” (GASB 65). GASB 65 reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as revenues and expenses, certain items that were previously reported as assets and liabilities. GASB 65 requires debt issuance costs to be recognized as an expense in the period incurred. Previously, these costs were amortized over the life of the related debt issuance. The adoption of this statement was applied retroactively by restating financial statements for all periods presented. The effect on net position due to the implementation of GASB 65 is presented at Note 14.

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.

### **c. Cash**

The Department’s cash include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

### **d. Investments**

The Department has stated its investments at fair value. Changes in the fair value of investments are recognized in the statements of revenues, expenses and changes in net position.

### **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, 2014 and 2013

## **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.

The utility plant is depreciated using the straight-line basis by applying composite rates based on the useful lives below. The composite rates are applied to beginning plant balances including contributions in aid of construction to calculate depreciation expense for 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 \$5,000 are capitalized. The Department capitalizes certain indirect costs to construction work orders based upon actual construction direct labor hours.

### **g. Capitalization of Interest**

Interest costs have been capitalized, in accordance with accounting principles generally accepted in the United States of America, based on an average of expended costs through the end of the year. Capitalized interest in 2014 and 2013 was approximately \$400,000 and \$434,000, respectively.

### **h. Material and Supplies**

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

# **Department of Water, County of Kauai**

## Notes to Basic Financial Statements

June 30, 2014 and 2013

### **2. Summary of Significant Accounting Policies (continued)**

#### **i. Deferred Outflows of Resources**

Deferred outflows of resources represent consumptions of net position that apply to future periods and will not be recognized as an outflow of resources (expenditures) until then. The amount consists of deferred charges on refunding bonds resulting from the difference between the carrying value of debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt on a basis that approximates the effective-interest method.

#### **j. 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 position.

#### **k. 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. Prior to July 1, 2001, the Department was self-insured for workers' compensation claims and judgments.

#### **l. Capital Contributions**

For the years ended June 30, 2014 and 2013, the following transactions represent voluntary non-exchange transactions, recorded at fair value, and are included as non-operating income in the statements of revenues, expenses and changes in net position:

	<b>2014</b>	<b>2013</b>
Facility reserve charge fees	\$ 1,069,000	\$ 780,000
Build America Bond interest subsidies	933,000	988,000
Contributions of property, plant and equipment from governmental agencies, developers and customers	838,000	514,000
SRF Loan forgiveness	-	1,201,000
<b>Total</b>	<b>\$ 2,840,000</b>	<b>\$ 3,483,000</b>

# **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

## **2. Summary of Significant Accounting Policies (continued)**

### **i. Capital Contributions (continued)**

At June 30, 2014 and 2013, the Department recorded approximately \$386,000 and \$387,000, respectively, of accrued interest subsidies in grants and subsidies receivable in the accompanying statements of net position.

### **m. 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 position.

### **n. Net Position**

Net position comprise the various net earnings from operating and non-operating revenues, expenses and contributions in aid of construction. Net position 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 position. 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 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.

## **3. Deposits**

The Department's deposits consist of cash on hand, cash held at financial institutions and cash held at the County of Kauai.

At June 30, 2014 and 2013, the carrying value of the Department's cash deposits amount to approximately \$18,247,000 and \$18,226,000, respectively, of which approximately \$5,977,000 and \$1,116,000, respectively, were held by the County in the County's name. The bank balances at June 30, 2014 and 2013 amounted to approximately \$18,873,000 and \$19,052,000, respectively. The Director of Finance has arranged for all of the Department's deposits at June 30, 2014 and 2013 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, 2014 and 2013

#### **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 position as equity interest in pooled investments. The following is the composition of the Department's portion of these investments as of June 30, 2014 and 2013:

<b>2014:</b>	<b>Fair Value (approximate)</b>	<b>Maturity (in years)</b>	
		<b>0-1</b>	<b>1-5</b>
Government sponsored entities and other agencies	\$ 32,474,000	\$ 15,479,000	\$ 16,995,000
Money market funds	407,000	407,000	-
Other fixed income	820,000	820,000	-
US corporates	<u>4,242,000</u>	<u>1,200,000</u>	<u>3,042,000</u>
Total	<u>\$ 37,943,000</u>	<u>\$ 17,906,000</u>	<u>\$ 20,037,000</u>
<b>2013:</b>	<b>Fair Value (approximate)</b>	<b>Maturity (in years)</b>	
		<b>0-1</b>	<b>1-5</b>
Government sponsored entities and other agencies	\$ 29,219,000	\$ 12,755,000	\$ 16,464,000
US governments	3,332,000	3,332,000	-
Other fixed income	2,020,000	2,020,000	-
Money market funds	2,009,000	2,009,000	-
US corporates	<u>97,000</u>	<u>97,000</u>	<u>-</u>
Total	<u>\$ 36,677,000</u>	<u>\$ 20,213,000</u>	<u>\$ 16,464,000</u>

As of June 30, 2014 and 2013, excluded from the above disclosures is approximately \$743,000 and \$1,576,000, respectively, of non-negotiable certificates of deposit which are classified as equity interest in pooled investments in the statements of net position, but are considered deposits for the purposes of this disclosure.

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements  
June 30, 2014 and 2013

### **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, 2014, with the exception of the Department’s investment in certain fixed income and money market funds which was not rated, all of the Department’s investments were rated Baa-AA.

*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, 2014, more than 5 percent of the Department’s investments are held in the following: Fannie Mae (32%), Federal Home Loan Bank (27%), Freddie Mac (18%), First Hawaiian Bank (9%).

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

### **5. Property, Plant and Equipment**

Property, plant and equipment activity during 2014 and 2013 was as follows:

	Balance June 30, 2013 (as restated)	Additions	Reductions/ Transfers	Balance June 30, 2014
Utility Plant in Service	\$ 293,790,071	\$ 15,374,249	\$ (696,392)	\$ 308,467,928
Accumulated Depreciation	<u>(93,031,575)</u>	<u>(7,323,987)</u>	<u>696,392</u>	<u>(99,659,170)</u>
	<u>200,758,496</u>	<u>8,050,262</u>	<u>-</u>	<u>208,808,758</u>
Construction in Progress	15,248,667	7,760,582	(15,486,062)	7,523,187
Total	<u>\$ 216,007,163</u>	<u>\$ 15,810,844</u>	<u>\$ (15,486,062)</u>	<u>\$ 216,331,945</u>

	Balance June 30, 2012 (as restated)	Additions	Reductions/ Transfers	Balance June 30, 2013 (as restated)
Utility Plant in Service	\$ 282,650,130	\$ 12,169,317	\$ (1,029,376)	\$ 293,790,071
Accumulated Depreciation	<u>(87,055,306)</u>	<u>(6,936,653)</u>	<u>960,384</u>	<u>(93,031,575)</u>
	<u>195,594,824</u>	<u>5,232,664</u>	<u>(68,992)</u>	<u>200,758,496</u>
Construction in Progress	14,564,576	11,274,954	(10,590,863)	15,248,667
Total	<u>\$ 210,159,400</u>	<u>\$ 16,507,618</u>	<u>\$ (10,659,855)</u>	<u>\$ 216,007,163</u>

In 2014 and 2013, no impairment losses were identified by the Department.

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements  
June 30, 2014 and 2013

### **6. Long-Term Liabilities**

#### **Bonds Payable**

The full faith and credit of the County is 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.

At June 30, 2014 and 2013, approximately \$2.6 million of the Department's portion of general obligation bonds outstanding are considered defeased and are not reflected in the accompanying statements of net position.

On July 10, 2012, the Department issued through the County \$2,745,000 in general obligation bonds, with a premium of approximately \$356,000 and an average interest rate of 4.00 percent, for the purpose of refunding \$3,245,000 of outstanding 2005A Serial bonds, with an average rate of 4.13 percent. The net proceeds of the issuance was \$3,069,696 after payment of \$31,010 in underwriting fees and other issuance costs. The net proceeds were transferred to an escrow deposit account to redeem the outstanding 2005A Series bonds.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$175,000. The Department completed the current refunding to reduce its total debt service payments over the next 16 years by approximately \$225,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$158,000. In the statements of net position as of June 30, 2014 and 2013, the Department reported net deferred charges on refunding bonds in this category of \$82,476 and \$98,758, respectively.

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements  
June 30, 2014 and 2013

### **6. Long-Term Liabilities (continued)**

#### **Bonds Payable (continued)**

As of June 30, 2014 and 2013, bonds payable consisted of the following:

	<u>2014</u>	<u>2013 (As Restated)</u>
Public Improvement Bonds--County Series 2012A, last installment 2029. Maturing serially from August 1, 2016. Interest rate – 3.00 to 5.00 percent. Date issued – July 10, 2012. Original amount - \$2,745,000.	\$ 2,745,000	\$ 2,745,000
Public Improvement Bonds--County Series 2011A, last installment 2025. Maturing serially from August 1, 2012. Interest rate – 2.00 to 5.00 percent. Date issued – July 7, 2011. Original amount – \$5,125,000.	4,225,000	4,505,000
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.	58,125,000	60,000,000
Public Improvement Bonds--County Series 2005A, last installment 2021. Maturing serially from August 1, 2008. Interest rate – 3.25 to 5.00 percent. Date issued – November 10, 2005. Original amount – \$6,485,000.	2,505,000	2,755,000
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.	18,000	35,000
Total bonds payable	<u>67,618,000</u>	<u>70,040,000</u>
Premium on bond issuance	<u>672,797</u>	<u>731,011</u>
Total bonds payable, net	<u><u>\$ 68,290,797</u></u>	<u><u>\$ 70,771,011</u></u>

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

### **6. Long-Term Liabilities (continued)**

#### **Bonds Payable (continued)**

The approximate annual debt service requirements through 2019 and in five-year increments thereafter to maturity as of June 30, 2014 are as follows:

Years ending June 30:	Principal	Interest	Total
2015	\$ 2,593,000	\$ 3,233,000	\$ 5,826,000
2016	2,655,000	3,155,000	5,810,000
2017	2,800,000	3,064,000	5,864,000
2018	2,910,000	2,959,000	5,869,000
2019	2,950,000	2,844,000	5,794,000
2020-2024	16,045,000	12,173,000	28,218,000
2025-2029	17,975,000	8,049,000	26,024,000
2030-2034	<u>19,690,000</u>	<u>2,731,000</u>	<u>22,421,000</u>
	<u><u>\$ 67,618,000</u></u>	<u><u>\$ 38,208,000</u></u>	<u><u>\$ 105,826,000</u></u>

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

### **6. Long-Term Liabilities (continued)**

#### **Loans Payable**

As of June 30, 2014 and 2013, the loans payable consisted of the following:

	<u>2014</u>	<u>2013</u>
State Revolving Fund (SRF) Loan – Stable 1.0 MG Tank, last installment 2029. Interest rate – .260 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – March 15, 2009. Original amount \$7,274,996.	\$ 5,748,238	\$ 6,123,590
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.	3,463,297	3,726,747
SRF Loan – Wailua Houselots Main Replacement, last installment 2033. Interest rate -- .50 percent. Semi-annual loan fee rate – 0.5 percent. Date issued – April 15, 2013. Original amount - \$3,487,703.	3,429,662	-
SRF Loan – Kaumualii Highway 12 Inch Main Replacement, last installment 2029. Interest rate – .320 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – August 15, 2009. Original amount - \$3,989,537.	3,200,619	3,401,725
SRF Loan – Kapilimao 0.5 MG Tank, last installment 2030. Interest rate – .420 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – January 15, 2010. Original amount - \$3,793,779.	3,192,104	3,384,582
SRF Loan – Waha, Wawae & Niho Roads Main Replacement, last installment 2029. Interest rate – .320 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – August 15, 2009. Original amount - \$1,844,718.	1,559,197	1,657,160
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.	1,464,670	1,585,469
SRF Loan – Rehabilitate Lihue Steel Tanks 1 & 2, last installment 2025. Interest rate – .46 percent. Semi-annual loan fee rate – 1.625 percent. Date issued – January 15, 2004. Original amount - \$1,243,017.	738,412	803,676

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

### **6. Long-Term Liabilities (continued)**

#### **Loans Payable (continued)**

	<u>2014</u>	<u>2013</u>
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.	\$ 695,267	\$ 782,698
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.	635,636	699,144
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.	475,087	516,803
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.	398,465	446,050
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.	354,270	389,661
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>215,295</u>	<u>236,196</u>
	<u><u>\$ 25,570,219</u></u>	<u><u>\$ 23,753,501</u></u>

## **Department of Water, County of Kauai**

### Notes to Basic Financial Statements

June 30, 2014 and 2013

#### **6. Long-Term Liabilities (continued)**

The approximate annual debt service requirements through 2019 and in five-year increments thereafter to maturity as of June 30, 2014 are as follows:

Years ending June 30:	Principal	Interest	Total
2015	\$ 1,792,000	\$ 838,000	\$ 2,630,000
2016	1,800,000	776,000	2,576,000
2017	1,807,000	713,000	2,520,000
2018	1,815,000	651,000	2,466,000
2019	1,823,000	588,000	2,411,000
2020-2024	8,824,000	2,002,000	10,826,000
2025-2029	6,597,000	666,000	7,263,000
2030-2033	<u>1,112,000</u>	<u>34,000</u>	<u>1,146,000</u>
	<u><u>\$ 25,570,000</u></u>	<u><u>\$ 6,268,000</u></u>	<u><u>\$ 31,838,000</u></u>

## **Department of Water, County of Kauai**

### Notes to Basic Financial Statements

June 30, 2014 and 2013

#### **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 utility plant related to the SWTP facility approximated \$7,181,000 as of June 30, 2014 and 2013. The accumulated provision for depreciation related to the SWTP facility approximated \$4,538,000 and \$4,006,000 as of June 30, 2014 and 2013, respectively.

The annual requirements to amortize all capital lease obligations as of June 30, 2014 are approximately as follows:

Years ending June 30:	Principal	Interest	Total
2015	\$ 623,000	\$ 178,000	\$ 801,000
2016	666,000	140,000	806,000
2017	693,000	99,000	792,000
2018	737,000	55,000	792,000
2019	516,000	12,000	528,000
	<u>\$ 3,235,000</u>	<u>\$ 484,000</u>	<u>\$ 3,719,000</u>

# Department of Water, County of Kauai

## Notes to Basic Financial Statements

June 30, 2014 and 2013

### 6. Long-Term Liabilities (continued)

#### Changes in Long-term Liabilities

Long-term liability activity for the years ended June 30, 2014 and 2013 was as follows:

	Balance June 30, 2013 (as restated)	Additions	Reductions	Balance June 30, 2014	Approximate amounts due within one year
General obligation bonds payable	\$ 70,040,000	\$ -	\$ 2,422,000	\$ 67,618,000	\$ 2,593,000
Deferred costs -					
Premiums on bond issuance	731,010	-	58,213	672,797	-
Total bonds payable	70,771,010	-	2,480,213	68,290,797	2,593,000
Loans payable	23,753,501	3,487,703	1,670,985	25,570,219	1,792,000
Total long term debt	94,524,511	3,487,703	4,151,198	93,861,016	4,385,000
Compensated absences	963,335	504,136	408,940	1,058,531	475,000
Capital lease obligation	3,806,775	27,487	599,597	3,234,665	623,000
Total	<u>\$ 99,294,621</u>	<u>\$ 4,019,326</u>	<u>\$ 5,159,735</u>	<u>\$ 98,154,212</u>	<u>\$ 5,483,000</u>
	Balance June 30, 2012 (as restated)	Additions	Reductions	Balance June 30, 2013 (as restated)	Approximate amounts due within one year
General obligation bonds payable	\$ 71,071,000	\$ 2,745,000	\$ 3,776,000	\$ 70,040,000	\$ 2,422,000
Deferred costs -					
Premiums on bond issuance	431,782	355,706	56,478	731,010	-
Total bonds payable	71,502,782	3,100,706	3,832,478	70,771,010	2,422,000
Loans payable	25,260,298	91,298	1,598,095	23,753,501	1,613,000
Total long term debt	96,763,080	3,192,004	5,430,573	94,524,511	4,035,000
Compensated absences	854,728	511,990	403,383	963,335	479,000
Capital lease obligation	4,337,674	14,079	544,978	3,806,775	592,000
Total	<u>\$101,955,482</u>	<u>\$ 3,718,073</u>	<u>\$ 6,378,934</u>	<u>\$ 99,294,621</u>	<u>\$ 5,106,000</u>

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

### **7. Net Position**

At June 30, 2014 and 2013, net position consisted of the following:

	2014	2013 (As restated)
<b>Invested in Capital Assets, Net of Related Debt:</b>		
Net property, plant and equipment	\$ 216,331,945	\$ 216,007,163
Less: Long term debt, net	(93,861,016)	(94,521,511)
Less: Capital lease obligation	(3,234,665)	(3,806,776)
Add: Unspent debt proceeds	22,989,915	25,030,242
Add: Deferred outflows – deferred refunding costs	82,476	98,758
	<hr/>	<hr/>
	142,308,655	142,804,876
<b>Restricted for Capital Activity and Debt Service:</b>		
FRC net position	1,739,969	2,669,299
Restricted cash – Bond funds	278,625	380,692
Restricted investments – Bond funds	22,711,290	24,649,550
Restricted accrued interest – Bond funds	98,283	107,858
Less:		
Accrued interest payable	(1,665,320)	(1,699,632)
Unspent debt proceeds	(22,989,915)	(25,030,242)
	<hr/>	<hr/>
	172,932	1,077,525
	<hr/>	<hr/>
<b>Unrestricted</b>	<b>33,419,815</b>	<b>28,793,237</b>
	<hr/>	<hr/>
<b>Total net position</b>	<b>\$ 175,901,402</b>	<b>\$ 172,675,638</b>

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements  
June 30, 2014 and 2013

### **7. Net Position (continued)**

As of June 30, 2014 and 2013, FRC net position consisted of the following:

	<u>2014</u>	<u>2013</u>
FRC assets restricted for utility plant construction:		
Cash	\$ -	\$ 739,693
Equity interest in pooled investments	1,734,174	1,924,000
Accounts receivable	4,600	-
Accrued interest receivable	1,195	5,606
	<u>1,739,969</u>	<u>2,669,299</u>
FRC liabilities	-	-
FRC net position	<u>\$ 1,739,969</u>	<u>\$ 2,669,299</u>

For the years ended June 30, 2014 and 2013, FRC change in net position consisted of the following:

	<u>2014</u>	<u>2013</u>
Contributions	\$ 1,073,300	\$ 761,300
Capital expenditures	(82,228)	(54,434)
Interest income	17,461	31,757
Transfers out	(1,942,038)	(2,982,299)
Other expenditures	<u>4,175</u>	<u>(28,604)</u>
Change in net position	<u>(929,330)</u>	<u>(2,272,280)</u>
FRC net position at beginning of year	<u>2,669,299</u>	<u>4,941,579</u>
FRC net position at end of year	<u>\$ 1,739,969</u>	<u>\$ 2,669,299</u>

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

### **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. Police officers, firefighters, judges, elected officials, and persons 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 years of 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.

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 members, all members of the noncontributory plan and certain members of the contributory plan were 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.

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

### **8. Employees' Retirement System (continued)**

#### **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 \$4,645,000, \$4,385,000, and \$4,285,000 for 2014, 2013, and 2012, respectively. The payroll for all of the Department's employees was approximately \$4,878,000, \$4,473,000, and \$4,368,000 for 2014, 2013, and 2012, respectively. The Department is required to contribute an actuarially determined amount to the ERS. The Department's contributions requirements as of June 30, 2014, 2013, and 2012 were approximately \$745,000, \$679,000, and \$642,000, respectively. The contribution rate was 16, 15.50, and 15 percent for the years ended June 30, 2014, 2013 and 2012, respectively.

### **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 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.

# **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

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

### **a. Plan Description (continued)**

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 those 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 approximately 19% of annual covered payroll.

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

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

#### **c. Annual OPEB Cost**

The following table shows the components of the Department's annual OPEB cost for 2014 and 2013, the amount actually contributed to the plan, and changes in the Department's net OPEB asset to EUTF:

	<b>2014</b>	<b>2013</b>
Annual required contribution	\$ 879,000	\$ 850,000
Interest on net OPEB asset	(4,000)	-
Adjustment to the ARC	<u>3,000</u>	<u>-</u>
Annual OPEB Cost	878,000	850,000
Contributions made	<u>879,000</u>	<u>870,000</u>
Increase in net OPEB asset	1,000	20,000
Net OPEB asset – beginning of year	<u>50,000</u>	<u>30,000</u>
Net OPEB asset – end of year	<u>\$ 51,000</u>	<u>\$ 50,000</u>

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2013 and 2012 were approximately as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2012	\$ 1,109,000	98.2%	\$ 30,000
2013	850,000	102.4%	50,000
2014	878,000	100.1%	51,000

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

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

#### **d. Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2013, the effective date of the most recent biennial actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 12,607,000
Assets	<u>3,864,000</u>
Unfunded AAL (UAAL)	<u><u>\$ 8,743,000</u></u>
Covered payroll	\$ 4,512,000
UAAL as a percentage of covered payroll	193.8%

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

## **Department of Water, County of Kauai**

### Notes to Basic Financial Statements

June 30, 2014 and 2013

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

##### **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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, closed
Amortization period	30 years
Actuarial assumptions:	
Investment rate of return	7%
Healthcare cost trend rate:	
Medical and prescription drug (PPO)	Initial rate of 9%, declining to a rate of 5% after 10 years
Medical and prescription drug (HMO)	Initial rate of 7.5%, declining to a rate of 5% after 10 years
Dental	4%
Vision	3%
Medicare Part B	5%
Projected salary increases	3.5%
Inflation rate	3%

The number of participants as of July 1, 2013, the effective date of the most recent 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	47
Deferred vested employees	<u>5</u>
Total	<u><u>126</u></u>

# **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

## **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, 2014 and 2013 was approximately \$1,409,000 and \$1,719,000, 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. Workers' Compensation Insurance**

Prior to July 1, 2001, the Department was fully self-insured for workers' compensation claims. Beginning July 1, 2001, the Department purchases insurance with a deductible of \$500,000. 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, 2014 and 2013, the workers' compensation liability amounted to approximately \$184,000 and \$118,000, respectively, and is recorded in accounts payable and accrued liabilities on the accompanying statements of net position.

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

### **11. Commitments and Contingencies**

#### **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 \$5,033,000 and \$15,262,000 at June 30, 2014 and 2013, 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 \$1,782,000 and \$1,511,000 in 2014 and 2013, respectively.

## **Department of Water, County of Kauai**

Notes to Basic Financial Statements

June 30, 2014 and 2013

### **13. New Pronouncement for Financial Reporting**

In June 2012, GASB issued Statement No. 68 (GASB 68), *Accounting and Reporting for Pensions (an amendment of GASB Statement No. 27)*. GASB 68 amends the accounting guidance related to employers' accounting for pension plans administered through trusts or similar arrangements and requires the recognition of a liability for the employers' accumulated obligation for pension benefits. GASB 68 also provides additional guidance regarding the recognition of annual costs of pension benefits and revises the disclosure requirements for the notes to the financial statements and required supplementary information. GASB 68 will be effective for the Department's financial statements for the year ending June 30, 2015. Management is currently assessing the impact of GASB 68 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

### **14. Restatements**

The Department restated amounts previously reported to write off \$1,847,292 of construction in progress that was previously capitalized. For the year ended June 30, 2013, \$570,485 was expensed in the statements of changes in net position. The remaining \$1,276,807 was recorded to beginning net position as of July 1, 2013. The Department also restated amounts previously reported to reverse duplicate accrued investment income of \$2,273,516. For the year ended June 30, 2013, \$98,396 was charged to investment income in the statements of changes in net position. The remaining \$2,175,119 was charged to beginning net position as of July 1, 2013.

In 2014, the Department implemented GASB 65. The implementation of GASB 65 resulted in the restatement of prior year financial statements due to the write off of debt issuance costs that were previously capitalized as other assets. Net position as of July 1, 2013, was decreased by \$572,289 as a result of the implementation of GASB 65.

## **Department of Water, County of Kauai**

### Notes to Basic Financial Statements

June 30, 2014 and 2013

#### **14. Restatements (continued)**

The results of these adjustments had the following impact to the previously reported amounts as of and for the year ended June 30, 2013:

	Net Position Beginning of Year	Operating Expenses	Investment Income	Net Position End of Year
Balance, as previously reported	\$170,346,557	\$ (20,904,079)	\$ 392,418	\$ 177,367,236
Construction in progress				
adjustment	(1,276,807)	(570,485)	-	(1,847,292)
Accrued interest receivable				
adjustment	(2,175,119)	-	(98,396)	(2,273,515)
Implementation of GASB 65	<u>(572,289)</u>	<u>1,498</u>	<u>-</u>	<u>(570,791)</u>
Balance as restated	<u>\$166,322,342</u>	<u>\$ 21,473,066</u>	<u>\$ 294,022</u>	<u>\$ 172,675,638</u>

## **Department of Water, County of Kauai**

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2009	\$ 930,000	\$ 13,531,000	\$ 12,601,000	7%	\$ 4,424,000	285%
7/1/2011	2,281,000	11,586,000	9,305,000	20%	4,368,000	213%
7/1/2013	3,864,000	12,607,000	8,743,000	31%	4,512,000	194%

See accompanying independent auditor's report.

# Department of Water, County of Kauai

## Schedule I

### Supplemental Schedule of Utility Plant in Service

For the Year Ended June 30, 2014

	<b>June 30, 2013</b>				<b>June 30, 2014</b>
	<b>Balance</b>	<b>Adjustments</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance</b>
<b>Cost Basis:</b>					
Water Utility Plant:					
Source	\$ 9,298,876	\$ -	\$ -	\$ -	\$ 9,298,876
Pumping	43,575,290	-	1,639,859	(34,636)	45,180,513
Water Treatment	9,407,875	-	33,066	-	9,440,941
Transmission & Distribution	219,651,971	-	13,085,965	(660,893)	232,077,043
General	9,908,673	-	437,792	(863)	10,345,602
	<u>291,842,685</u>	<u>-</u>	<u>15,196,682</u>	<u>(696,392)</u>	<u>306,342,975</u>
Land and Land Rights:					
Source	837,879	-	-	-	837,879
Pumping	156	-	-	-	156
Water Treatment	150	-	-	-	150
Transmission & Distribution	469,237	-	-	-	469,237
	<u>1,307,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,307,422</u>
Intangible Assets:					
Easements	35,722	-	-	-	35,722
Software	604,242	-	177,567	-	781,809
	<u>639,964</u>	<u>-</u>	<u>177,567</u>	<u>-</u>	<u>817,531</u>
Total	<u>\$ 293,790,071</u>	<u>\$ -</u>	<u>\$ 15,374,249</u>	<u>\$ (696,392)</u>	<u>\$ 308,467,928</u>
	<b>June 30, 2013</b>				<b>June 30, 2014</b>
	<b>Balance</b>	<b>Adjustments</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance</b>
<b>Accumulated Depreciation:</b>					
Water Utility Plant:					
Source	\$ 4,542,889	\$ -	\$ 202,160	\$ -	\$ 4,745,049
Pumping	19,584,669	12,348	1,605,801	(34,636)	21,168,182
Water Treatment	5,819,244	-	711,266	-	6,530,510
Transmission & Distribution	57,331,526	439,701	3,826,582	(660,893)	60,936,916
General	5,179,960	-	511,263	(863)	5,690,360
Intangible Assets - Software	573,287	-	14,866	-	588,153
Total	<u>\$ 93,031,575</u>	<u>\$ 452,049</u>	<u>\$ 6,871,938</u>	<u>\$ (696,392)</u>	<u>\$ 99,659,170</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, 2014

	2013				
	2014	(As Restated)	2012 *	2011 *	2010 *
<u>Statements of Net Position</u>					
Utility plant in service	\$ 308,468	\$ 293,790	\$ 282,650	\$ 244,193	\$ 223,914
Net Position:					
Invested in capital assets, net	\$ 142,309	\$ 142,805	\$ 142,688	\$ 132,139	\$ 124,943
Restricted for capital activity and debt service	173	1,078	3,197	2,483	3,977
Unrestricted	33,419	28,793	24,462	14,494	16,533
Total	\$ 175,901	\$ 172,676	\$ 170,347	\$ 149,116	\$ 145,453

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

Resources:					
Water sales	\$ 26,429	\$ 25,838	\$ 21,283	\$ 19,829	\$ 18,772
Other	2,055	2,126	1,239	970	1,014
Total	28,484	27,964	22,522	20,799	19,786
 Operating Expenses:					
Depreciation	7,324	6,937	6,163	5,743	5,898
Administrative and general	6,732	4,963	5,115	4,165	4,299
Power and pumping	3,909	3,614	4,015	3,323	3,178
Transmission and distribution	4,132	3,748	3,502	3,017	3,441
Accounting and collection	652	688	606	591	584
All other	1,690	1,523	962	824	1,054
Total	24,439	21,473	20,363	17,663	18,454
Non-Operating (Expense) Income	(3,659)	(3,621)	(2,991)	(3,552)	(1,031)
Contributions	2,840	3,483	22,063	4,079	7,664
Increase in net position	\$ 3,226	\$ 6,353	\$ 21,231	\$ 3,663	\$ 7,965

\* Not adjusted for restatement

See accompanying independent auditor's report.



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A Hawaii Limited Liability Partnership

**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***

**Independent Auditor's Report**

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, the financial statements of the Department of Water, County of Kauai (the Department), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated November 5, 2014.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we considered to be material weaknesses. However, we identified certain deficiencies in internal control as described in the accompanying schedule of findings and questioned costs as items 2014-01 and 2014-02 that we considered to be significant deficiencies.

The Department's responses to the internal control findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in our audit and, accordingly, we express no opinion on the response.

### **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 determination of financial statement amounts. 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*.

### **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.

*KMH LLP*

KMH LLP

Honolulu, Hawaii  
November 5, 2014



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A Hawaii Limited Liability Partnership

**Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance; and Report on  
Schedule of Expenditures of Federal Awards Required by OMB A-133**

**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited the Department of Water, County of Kauai's (the Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2014. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## **Report on Internal Control Over Compliance**

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Department as of and for the year ended June 30, 2014, and have issued our report thereon dated November 5, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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 5, 2014

## **Department of Water, County of Kauai**

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014

<b>Federal Grantor Pass-Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass- Through Grantor's Number</b>	<b>Award</b>	<b>Current Expenditures</b>	<b>Cumulative Expenditures</b>	<b>Remaining Balance</b>
Environmental Protection Agency--	66.468	99-6000449				
Passed-Through State Department of Health--						
Drinking Water Treatment Revolving Loan Fund:						
PH I Wailua Houselots Main Replacement DW413-0008			\$ 4,671,000	\$ 2,762,835	\$ 4,463,084	\$ 207,916
Kahili Horizontal Directional Drilled Well DW400-0004			2,000,000	80,650	531,212	1,468,788
Total			\$ 6,671,000	\$ 2,843,485	\$ 4,994,296	\$1,676,704

## **Department of Water, County of Kauai**

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014

### **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 and Questioned Costs  
For the Year Ended June 30, 2014

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## **Section I – Summary of Auditors’ Results**

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### ***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)?  Yes  None reported

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)?  Yes  None Reported

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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Drinking Water Treatment Revolving Loan Fund

Dollar threshold used to distinguish between type A and type B programs? **\$300,000**

Auditee qualified as low-risk auditee?  Yes  No

# **Department of Water, County of Kauai**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014

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## **Section II. Financial Statement Findings**

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### **Finding No.: 2014-01**

#### **Write-off of Construction in Progress – Significant Deficiency**

**Criteria:** In accordance with GASB Statement No. 34, paragraph 18, capitalizable costs include not just the cost to purchase or construct an asset, but also any charges necessary to place the asset into its intended location and condition for use. In addition, feasibility studies or other costs incurred before it is probable an asset will be constructed or acquired is not capitalizable costs and should be expensed during the year it is incurred.

**Condition, cause & context:** During the process of implementing changes to its accounting system, the Department's consultants identified about \$1.8 million of costs in construction in progress that were improperly capitalized in previous years. Approximately \$1.2 million related to two feasibility studies that should have been expenses when incurred. The remaining costs related to repair and maintenance work orders that were not expensed on a timely basis. Feasibility studies of this magnitude are infrequent and unusual and for one of the projects, approximately \$0.5 million was funded by a state grant. The error was caused by the fact that the reviews of the construction in progress details were not setup to identify feasibility projects and to remove the repair and maintenance work orders on a regular basis.

**Effect:** The Department recorded a restatement adjustment to reduce net position as of July 1, 2012 by approximately \$1.3 million and increase operating expenses in the statement of revenues, expenses and changes in net position for the year ended June 30, 2013 by approximately \$0.6 million.

**Recommendation:** Management should modify procedures over the review of the construction in progress schedules to identify and properly expense feasibility studies and repair and maintenance work orders.

**Department Reply:** The Department concurs with this finding. One of the main goals of the Financial Accounting System's (FAS) implementation is streamlining the chart of accounts. In preparation for this implementation, a CPA hired by the IT Consultants worked with Accounting staff to prepare accounting data for conversion to the new re-defined accounting system. It was identified through this process that certain costs which had been previously recorded as construction in progress were not directly attributable to capital projects. Fiscal reviewed with the Engineers the statuses of these projects and adjusted the value of Construction in Progress accordingly.

## **Department of Water, County of Kauai**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014

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### **Section II. Financial Statement Findings (continued)**

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A new standard operating procedure is in place. We started this during the department's annual budget process where the Engineers were required to prepare and submit separate budget for capitalized and non-capitalized job costs. Each new project must identify each project element from the planning process, designing, and executing water infrastructure projects to ensure proper job costing.

**Contact Person:** Marites Yano

**Target Completion Date:** Effective immediately

#### **Finding No.: 2014-02**

##### **Investment Account Supporting Documents – Significant Deficiency**

**Criteria:** All journal entries should be supported by appropriate documentation.

**Condition, cause & context:** In prior years, the Waterworks Controller recorded entries to accrue interest income related to the Build America Bond (BAB) investments of approximately \$2.3 million. These entries were recorded based on discussions with the County Treasurer and a schedule provided by the County Treasurer that is used to determine the BAB investment balance at year end. In the current year, the Waterworks Controller determined that these entries inadvertently duplicated interest income related to the BAB investments. Based on our discussion with the County Treasurer, we determined the Waterworks Controller misinterpreted the BAB investment schedule provided as this schedule was not intended to present detailed information for the Department to properly record investment activity in the BAB account during the year. Obtaining the appropriate documentation to determine the investment activity in the BAB investment account would have prevented the erroneous entries from being recorded.

**Effect:** In FY2014, the Department recorded a restatement adjustment to write off accrued interest receivable of approximately \$2.3 million.

**Recommendation:** When journal entries are prepared, appropriate documentation should be obtained to ensure that entry is properly recorded.

**Department Reply:** The Department's Short Term Investment is pooled with the County's Investment portfolio which is managed by the County Treasurer. On a monthly basis, the DOW records the investment activities based on the statements prepared and provided by the County Treasurer. Accrued Interest Income is recorded at year end using interest rates provided from the county treasury statements.

## **Department of Water, County of Kauai**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014

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### **Section II. Financial Statement Findings (continued)**

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In FY 2012, a separate statement of BAB Interest Income was provided by the County Treasurer. The Waterworks Controller contacted the County Treasury regarding same and the entry was made to reflect the difference of Accrued Interest that had not been recorded. Because the amount involved was \$2M, this Journal Entry was brought to KMH Auditors' attention by the Waterworks Controller at that time.

This year, the error was caught by the Department after further review and analysis of the BAB investment activities provided by the County Treasury was done. A discussion and further clarification was held with the County Treasury and a more detailed report was also obtained to verify the accuracy of the numbers recorded.

**Contact Person:** Marites Yano

**Target Completion Date:** Effective immediately

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### **Section III. Federal Award Findings and Questioned Costs**

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No matters were reported.

## **Department of Water, County of Kauai**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014

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### **Section IV. Summary Schedule of Prior Audit Findings**

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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, 2013 dated December 3, 2013.

<u>Recommendations</u>	<u>Status</u>
<b>2013-01 Inadequate Use of Accounting Software</b>	Resolved. The Department worked with a consultant to consolidate their general ledger accounts and move their fixed assets into the accounting software. The Department also worked on report mapping and now provides monthly reports to the Board of Directors and Project Managers.

For several years, the Department has been in progress with the installation of its accounting software. Although the main modules were fully in place, the implementation of the payroll module was delayed and the Department decided last year not to pursue the implementation of the last module. The Department had installed the system with hopes of increasing its ability to provide timely and accurate financial reporting. Instead the software, as implemented, has not performed as expected. The following are some of the issues noted:

- Too many general ledger accounts;
- Reports not designed to allow for regular financial reporting;
- Significant amount of processing done outside of system – CWIP

The Department has taken steps puts to consolidate certain general ledgers accounts to simplify the closing process. Inadequate use of accounting software puts more pressure on the Departments accounting staff to complete its closing procedures and limits its ability to analyze the information to identify potential errors.

We encourage management to continue its efforts with working with a consultant to provide detailed recommendations and training to properly utilize the accounting software.

## **Department of Water, County of Kauai**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014

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### **Section IV. Summary Schedule of Prior Audit Findings (continued)**

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<u>Recommendations</u>	<u>Status</u>
<b>2013-02 Timely Reconciliation of Sales Entries</b>  We noted during the audit process that management had not reconciled revenues on a monthly basis. These reconciliations were not performed until after the end of the fiscal year. Timely reconciliations are crucial in determining proper account balances. In addition, this condition contributed to the length of the annual closing process.  Revenues should be reconciled regularly and all related adjustments recorded on a timely basis.	Resolved.
<b>2013-03 Inventory – Book to Physical Adjustments</b>  During audits in prior years, we noted a book to physical adjustment recorded after annual physical inventory account. The book to physical adjustments continued to occur without any clear indication from management on why these adjustments were occurring. In addition, we noted that in early 2013 operations management authorized their consultant to temporarily provide the rights to certain DOW staff to make direct changes to the inventory system databases to “true-up” the inventory balances.  Management should review detailed inventory procedures to identify the potential cause of the large adjustments. In addition, management should consider increasing the frequency of the inventory counts.	Resolved.

## **Department of Water, County of Kauai**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014

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### **Section IV. Summary Schedule of Prior Audit Findings (continued)**

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<u>Recommendations</u>	<u>Status</u>
<b>2013-04 Review of Journal Entries</b>	
During the course of the audit, we discovered the following errors:	Resolved.
<ul style="list-style-type: none"><li>• Non-accrual of receivable related to State Revolving Fund (SRF) loan forgiveness (grant) of approximately \$891,000. Management did identify the need to write-off loan balance related to this new SRF loan term, however their assessment of the issue was incomplete.</li><li>• Overstatement of capitalized interest of \$120,000. Reviews were completed for this entry, but did not identify the error in the calculation.</li><li>• Improper journal entry related to prior years capitalization of engineering labor of approximately \$291,000. Although this entry was discussed, there was no documentation that a review was performed on this entry by the Waterworks Controller.</li></ul>	
During the past year, management has taken steps to record adjustments prior to the audit. As a result of this effort, total adjustments decreased from 17 audit adjustments in the prior year to 8 audit adjustments in the current year.	
All journal entries should be appropriately reviewed.	

**New Business**

**DEPARTMENT OF WATER**  
County of Kaua'i

“Water has no Substitute – Conserve It!”

**MANAGER'S REPORT No. 15-18**

November 20, 2014

Re: Grant of Easement “W-1” from Kenneth A. Souza Jr. and Donna M. Souza, for the “Construction Plan for Detector Check Meter and Backflow Preventer”, TMK (4) 3-3-13:031, Puhi, Lihue District, Kauai, Hawaii

**RECOMMENDATION:**

It is recommended that the Board approve the Grant of Easement document whereby, Kenneth A. Souza Jr. and Donna M. Souza, grant to the Board of Water Supply, County of Kauai, perpetual easement, Easement “W-1”, on, over and under that certain parcels of land located in TMK: (4) 3-3-13:031, Puhi, Kauai, Hawaii, for the reading of water meters and for the construction, installation, re-installation, maintenance, repair and removal of a potable water pipelines and related meters, valves, and other associated waterworks facilities improvements and appurtenances, together with the right of ingress and egress at any time to and from the said easement area with or without vehicles or other equipment as the Department of Water shall deem necessary for the proper operation of its water system.

Further, Board approval is specifically requested of the indemnification provision in this agreement, wherein the Board agrees to indemnify and hold harmless the Grantee from property damage and injuries to person (including death), when such damages and injuries are caused by the Department's negligence while using the area.

**FUNDING:** Not Applicable

**BACKGROUND:**

The plans were originally approved to install a 2" Detector Check (DC) meter. A 2-1/2" Reduced Pressure Detector (RPDA) was installed instead of the 2" DC meter at the request of the DOW and concurrence by the applicant. The change was documented on the As-built construction drawings. The RPDA was installed in private property, requiring an easement to be granted to the DOW from the property owner.

**OPTION:**

- 1) Not approve the easement.

Respectfully submitted,



Keith Aoki, Civil Engineer VI  
Engineering Division

CONCURRED:



Kirk Saiki, P.E.  
Acting Manager and Chief Engineer

KA:ein

Attachment: Grant of Easement “W-1” from Kenneth A. Souza Jr. and Donna M. Souza, for the “Construction Plan for Detector Check Meter and Backflow Preventer”, TMK (4) 3-3-13:031, Puhi, Lihue District, Kauai, Hawaii

Mgrrp/November 2014/15-18 Grant of Easement “W-1” from Kenneth A. Souza Jr. and Donna M. Souza, for the “Construction Plan for Detector Check Meter and Backflow Preventer”, TMK (4) 3-3-13:031, Puhi, Lihue District, Kauai, Hawaii (11-20-14):ein

**LAND COURT SYSTEM****REGULAR SYSTEM**

After Recordation Return By: **MAIL [XX]** Pickup [ ]  
TO:

DEPARTMENT OF WATER  
POST OFFICE BOX 1706  
LIHUE, KAUAI, HAWAII 96766

CPR-UID #757-T-16591

**GRANT OF EASEMENT****for****TMK: (4) 3 - 3 - 0 1 3 : 0 3 1 ;**

THIS INDENTURE is made on this 3<sup>rd</sup> day of October, 2014,  
between:

Kenneth A. Souza Jr.

Donna M. Souza

whose residence address is:

4366 Punee Road

Koloa, Kauai, Hawaii

96756

and whose mailing address is

4366 Punee Road

Koloa, Kauai, Hawaii

96756

(hereafter individually or collectively "GRANTOR") and the **BOARD OF WATER SUPPLY, COUNTY OF KAUAI**, whose mailing address is Post Office Box 1706, Lihue, Kauai, Hawaii 96766 (hereafter "GRANTEE");

**WITNESSETH:**

THAT IN CONSIDERATION of the sum of one dollar (\$1.00) paid by the GRANTEE to the GRANTOR, the receipt of which is acknowledged, and the covenants contained in this grant of easement to be performed by the GRANTEE, the GRANTOR does hereby grant, bargain, sell and convey to the GRANTEE an easement in perpetuity on, over, and under that certain parcel of land located generally at Lihue District, Kauai, Hawaii, Tax Map Key No. (4) 3 - 3 - 0 1 3 : 0 3 1;

**Project Name:** Construction Plan for Detector Check Meter and Backflow Preventer

**Subdivision No.:** Not Applicable, and more particularly described in Exhibit "A", which is attached and incorporated by reference into this grant of easement (hereafter "easement area").

This easement is granted for the reading of water meters and for the construction, installation, re-installation, maintenance, repair, and removal of potable water pipelines and related meters, valves, and other associated waterworks facility improvements and appurtenances. The GRANTEE is further allowed the right of ingress and egress at any time to, from, and through the easement area, with or without vehicles or equipment, as the GRANTEE deems necessary for the proper operation of its water system.

TO HAVE AND TO HOLD the same unto the GRANTEE forever; provided that should the GRANTEE cease to use the easement area for the purposes described for a continuous period of two (2) calendar years, this easement shall terminate and the interest granted shall immediately and without the GRANTOR's re-entry revert to the GRANTOR. In such an event, this easement shall cease to exist by operation of the GRANTEE's non-use, without any necessary action on the GRANTOR's part.

AND IN FURTHER CONSIDERATION of the rights granted to the GRANTEE the benefits accruing to the GRANTOR under this easement, the GRANTOR and GRANTEE further covenant, agree, and promise as follows:

1. That should the GRANTEE disturb in any way the ground which is the subject of the easement area, the GRANTEE shall at its own expense restore the ground to its original condition to the extent that such restoration is reasonable;
2. That the GRANTEE shall indemnify and save the GRANTOR harmless from and against all damage to the GRANTOR's property and all liability for injury to or the death of persons when such damage, injury, or death is caused by the negligence of the GRANTEE, its officers, agents and employees while using the easement area;

3. That the GRANTEE shall not assign its rights under this easement without the prior written consent of the GRANTOR; provided that the GRANTEE may assign its rights to a successor of the GRANTEE duly created by law;
4. That should the GRANTOR's development plans require that the easement area and/or waterworks facility improvements within, on, or under the easement area be re-located, the GRANTOR will, at the GRANTOR's own expense and pursuant to the GRANTEE's instructions and specifications, re-locate the affected easement area and waterworks facility improvements and appurtenances without interruption of the GRANTEE's services;
5. That the GRANTOR shall at no time erect any building foundation of any kind below the surface of the land which is the subject of the easement area or any building or structure of any kind (other than roads, sidewalks, curbs or similar appurtenances) on the surface of the land which is the subject of the easement area unless the GRANTOR receives the prior written consent of the GRANTEE.

Only lawn grass shall be planted within three (3) feet of all meter boxes, fire hydrants, and other waterworks facility improvements and appurtenances. No trees with aggressive root systems shall be planted within twenty (20) feet of all meter boxes, fire hydrants, and other waterworks facility improvements and appurtenances.

This Paragraph No. 5, though, shall not prevent the GRANTOR from crossing over, constructing, and maintaining roadways within the easement area or laying, operating, maintaining, repairing, or removing conduits and drains which do not interfere with the exercise of the GRANTEE's rights under this easement; and

6. That the GRANTOR covenants with the GRANTEE that the GRANTOR is the lawful owner of the land which is the subject of this easement area, that the GRANTOR has good right and title to grant this easement, and that the GRANTOR will warrant and defend the same unto the GRANTEE against the claims and demands of all persons.

When used within this document the term "GRANTOR" shall mean the singular and plural, masculine and feminine, and natural persons, trustees, corporations, partnerships, limited partnerships, sole proprietorships and other forms of business entities. The term shall also mean the GRANTOR's or GRANTORS' estates, heirs, personal representatives, successors, successors-in-trust and assigns.

**IT IS FURTHER MUTUALLY AGREED** that the terms of this easement shall be binding upon and inure to the benefit of all the parties to this document and that all covenants and obligations undertaken by two or more persons shall be deemed to be joint and several unless a contrary intention is clearly expressed in this document.

This Agreement may be executed in counterparts. Each counterpart shall be executed by one or more parties hereinbefore named and the several counterparts shall constitute one instrument to the same effect as though the signatures of all the parties are upon the same document.

**OWNER:**

  
By: \_\_\_\_\_ Kenneth A. Souza Jr.  
(Please type or stamp name above.)

**OWNER:**

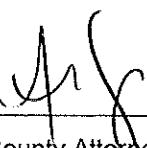
  
By: \_\_\_\_\_ Donna M. Souza  
(Please type or stamp name above.)

**GRANTOR**

**APPROVED:**

  
Acting Manager and Chief Engineer  
Department of Water, County of Kauai

**APPROVED AS TO FORM  
AND LEGALITY:**

  
Deputy County Attorney  
Andrea Suzuki

**ACCEPTED:**

BOARD OF WATER SUPPLY,  
COUNTY OF KAUAI

By: \_\_\_\_\_ Clyde Nakaya  
Its: \_\_\_\_\_ Chairperson

**GRANTEE**

STATE OF HAWAII )  
                    )  
                    ) ss.  
COUNTY OF KAUAI )

On this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, before me appeared Clyde Nakaya  
Chairperson, to me personally known, who, being by me duly sworn, did say that said officer is the  
Chairperson of the **COUNTY OF KAUAI, BOARD OF WATER SUPPLY**, and that the foregoing  
instrument was signed on behalf of said Department, and said officer acknowledged said instrument to be the free act  
and deed of said Department, and that said Department has no corporate seal.

Doc Date: 10/03/2014 # Pages: 9  
Notary Name: Mary-jane Akuna  
Fifth Circuit  
County of Kauai  
GOE for  
Doc Description: Kenneth A Souza Jr. &  
Donna M. Souza  
TMK (4) 3-3-013:031  
  
Mary-jane Akuna      Date

Notary Public, State of Hawaii

Name of Notary: Mary-jane Akuna

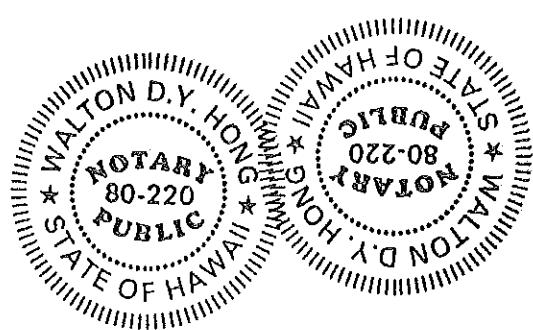
My Commission expires: \_\_\_\_\_

STATE OF HAWAII )  
                 ) ss  
COUNTY OF KAUAI )

On this 3rd day of October, 2014, before me personally appeared KENNETH A. SOUZA JR.

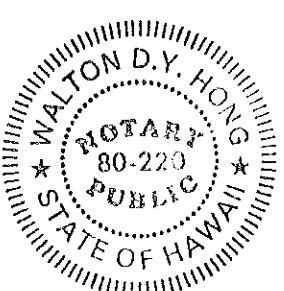
X who is personally known to me  
\_\_\_\_ whose identity I proved on the basis of \_\_\_\_\_  
\_\_\_\_ whose identity I proved on the oath/affirmation of \_\_\_\_\_  
\_\_\_\_, a credible witness:

Who being by me duly sworn or affirmed, did say that such person executed the foregoing instrument as the free act and deed of such person, and if applicable in the capacity shown, having been duly authorized to execute such instrument in such capacity.



Walton D.Y. Hong  
Notary Public, State of Hawaii

Name of Notary: Walton D.Y. Hong  
My Commission expires: 4/16/16



Doc. Date: Oct. 3, 2014 # Pages: 9  
Name: Walton D.Y. Hong Fifth Circuit  
Doc. Description: Grant of easement  
  
Walton D.Y. Hong 10/3/14  
Notary Signature Date  
NOTARY CERTIFICATION

STATE OF HAWAII' )  
                      )  
                      ) SS  
COUNTY OF KAUAI' )

On this 3rd day of October, 2003, before me personally appeared DONNA M. SOUZA

who is personally known to me  
 whose identity I proved on the basis of \_\_\_\_\_  
 whose identity I proved on the oath/affirmation of \_\_\_\_\_  
\_\_\_\_\_, a credible witness:

Who being by me duly sworn or affirmed, did say that such person executed the foregoing instrument as the free act and deed of such person, and if applicable in the capacity shown, having been duly authorized to execute such instrument in such capacity.



Warts of 7-1

Name of Notary: WALTER M. HOBBS  
My Commission expires: 4/16/12



Doc. Date: Oct 3, 2014 # Pages: 9  
Name: WALTER D.Y. North Fifth Circuit  
Doc. Description: Group of Patients

Walter J. 10/31/11  
Notary Signature Date

# **Construction Plans for Detector Check Meter & BFP**

## **CPR-UID #757 – Kenneth & Donna Souza**

## EASEMENT W-1

BEING a Water Facilities Easement in favor of the County of Kauai Department of Water, affecting Lot 1119 of Land Court Application 1087, (Being the Subdivision of Lot 1059 as shown on Map 103). Situate at Lihue, Puna, Kauai, Hawaii, Tax Map Key (4th) 3-3-013: 031.

BEGINNING at the South corner of this parcel of land, on the Southwest line of Lot 1119, on the Northeast line of Haleukana Street, the coordinates of said point of beginning referred to Government Survey Triangulation Station "KILOHANA", being 12,574.75 feet South and 12,955.75 feet East, thence running by azimuths measured clockwise from true South:

- |    |          |  |
|----|----------|--|
| 1. | 145° 10' | 15.00 feet along the Northeast line of Haleukana Street;                                     |
| 2. | 235° 10' | 8.00 feet affecting Lot 1119;  |
| 3. | 325° 10' | 15.00 feet affecting Lot 1119;   |
| 4. | 55° 10'  | 8.00 feet affecting Lot 1119 to the point of beginning and containing an AREA of 120 Sq. Ft. |



Kalaheo, Hawaii 96741  
December 13, 2011

DESCRIPTION PREPARED BY  
CLS HAWAII - Land Surveying & Mapping

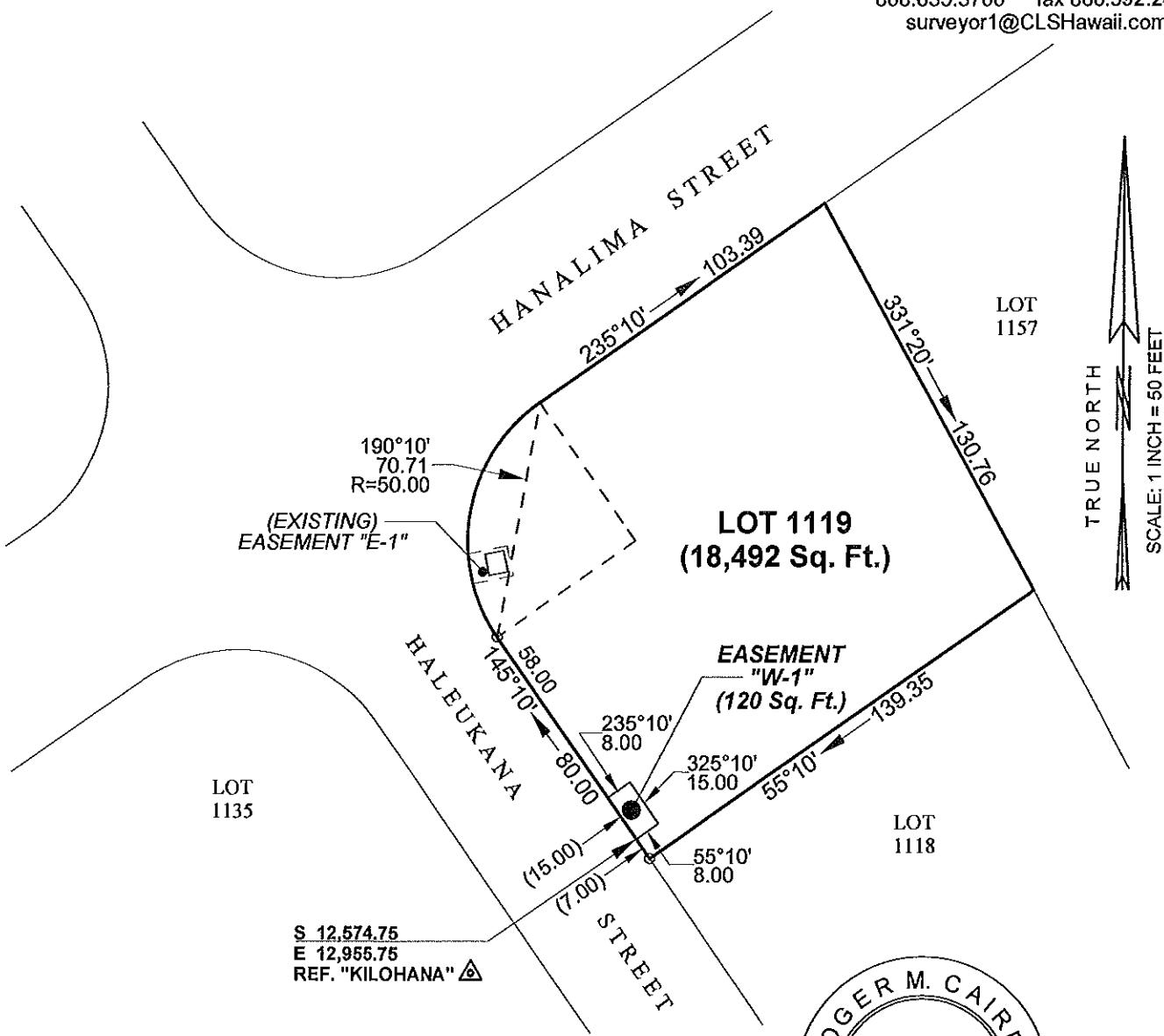


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ROGER M. CAIRES  
Licensed Professional Land Surveyor  
Certificate No: 7919 Expires 04/30/12

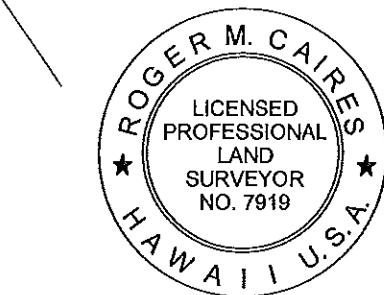
0 25 50 100

CLS HAWAII  
Land Surveying & Mapping  
P.O. Box 777  
Kalaheo, Kauai, Hawaii 96741  
808.635.3700 \* fax 866.592.2475  
[surveyor1@CLSHawaii.com](mailto:surveyor1@CLSHawaii.com)



MAP SHOWING  
EASEMENT "W-1"  
AFFECTING LOT 1119  
OF  
LAND COURT APPLICATION 1087  
( BEING A PORTION OF )  
THE SUBDIVISION OF LOT 1059  
AS SHOWN ON MAP 103  
FOR WATER FACILITIES PURPOSES  
IN FAVOR OF  
COUNTY OF KAUAI DEPARTMENT OF WATER  
At Lihue, Puna, Kauai, Hawaii  
TMK: 4th 3-3-013: 031

December 13, 2011



THIS WORK WAS PREPARED BY ME  
OR UNDER MY SUPERVISION

  
ROGER M. CAIRES  
Licensed Professional Land Surveyor  
Certificate Number 7919 Expires 04/30/12

# Staff Reports

## **Fiscal Division Monthly Report:**

### October Monthly Budget Summary Highlights:

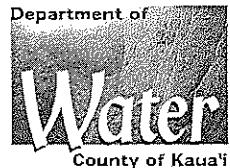
- Cumulative Water Sales Revenue is up by 5%
- Total Revenue is down 11%. This is due to other revenues such as Federal, State Grants, BAB Subsidy that don't come in regularly or monthly. Revenue from Public Fire Protection is also a one-time year end entry.
- Total Operating Expenses – 9% or \$1 Million (M) higher than budgeted YTD. Several budget line items that are higher than budgeted are:
  - Debt service which is 1.9M higher than the cumulative budget as of 10/31/14. This is expected because the budget is spread out monthly while a large payment of DOW debts were made in early August.
  - Depreciation & amortization expenses of \$2.4M also contributed to this variance in Operating Expenses.
- YTD Capital expenses is at \$323K, way below the cumulative capital budget of \$15M YTD.

### **Water Consumption - 3 Years Comparative Chart:**

Three (3) years water consumption comparative chart shows a steady drop in water usage. As of 10/31/2014, the cumulative decrease is 133M gallons as compared with October, 2013 water usage in FY 2014.

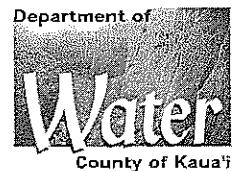
### **Other Fiscal Ongoing Activities/Initiatives:**

1. Financial Accounting System (FAS) Implementation effective July 1, 2014; **4<sup>th</sup> month of post implementation.**
2. Financial Audit Report – finalized, electronic copy received, hard bound copies will follow.
3. New agreement with HBWS – signed by DOW, waiting for HBWS execution of the agreement.
4. Demonstrations from 2 billing solutions software vendors were scheduled for December 2<sup>nd</sup> and 5<sup>th</sup> this year.
5. Auction sale – scheduled in December this year.
6. Job Cost Accounting – SOP drafted (see attached).
7. Billing Operating Procedures drafted, still need further update (see attached)



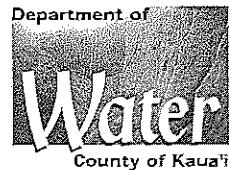
Department of Water, County of Kauai  
Monthly Budget Summary vs. Actual  
SUMMARY  
10/31/2014

	October				FY 2015			
	Original Budget	Revised Budget	Actual	Variance	Revised YTD Budget	YTD Actual	Variance	Variance %
<b>Revenue</b>								
Water Sales	\$2,448,513.92	\$2,448,513.92	\$2,325,206.07	(\$123,307.85)	\$9,794,055.68	\$10,166,094.14	\$372,038.46	4%
Revenue from Public Fire Protection	165,803.50	165,803.50		(165,803.50)	663,214.00		(663,214.00)	(100%)
Other Water Revenue	5,416.67	5,416.67	24,351.19	18,934.52	21,666.68	63,795.22	42,128.54	194%
FRC-Facility Reserve Charge	(83,333.33)	(83,333.33)	23,000.00	106,333.33	(333,333.32)	142,600.00	475,933.32	(143%)
Federal Grants	(133,296.40)	(133,296.40)		133,296.40	(533,185.60)		533,185.60	(100%)
State Grants	127,500.00	127,500.00		(127,500.00)	510,000.00		(510,000.00)	(100%)
Capital Contributions						468,398.02	468,398.02	0%
Net Increase in Fair Value of Investments								0%
Investment Income	(8,333.33)	(8,333.33)	12,280.32	20,613.65	(33,333.32)	42,337.17	75,670.49	(227%)
Gain or Loss on Disposal of Capital Assets	416.67	416.67		(416.67)	1,666.68		(1,666.68)	(100%)
Gain or Loss from the Retirement of Debt								0%
Miscellaneous Revenues			192.91	192.91		1,192.91	1,192.91	0%
<b>Total Revenue</b>	<b>2,522,687.70</b>	<b>2,522,687.70</b>	<b>2,385,030.49</b>	<b>(137,657.21)</b>	<b>10,090,750.80</b>	<b>10,884,417.46</b>	<b>793,666.66</b>	<b>8%</b>
<b>Employee-Related Expenses</b>								
Salaries and Wages	425,245.25	432,855.25	292,286.25	140,569.00	1,716,200.96	1,088,816.55	627,384.41	37%
Temporary Assignment	3,026.00	3,026.00	10,727.93	(7,701.93)	12,104.00	52,705.52	(40,601.52)	(335%)
Overtime	45,166.65	45,166.65	32,045.50	13,121.15	180,666.60	156,463.63	24,202.97	13%
Standby	24,127.99	24,127.99	15,729.56	8,398.43	96,511.96	53,262.97	43,248.99	45%
Compensated Annual & Sick Leave	7,500.00	7,500.00	65,825.58	(58,325.58)	30,000.00	285,228.21	(255,228.21)	(851%)
Compensated Compensatory Time	833.33	833.33	11,920.91	(11,087.58)	3,333.36	59,249.14	(55,915.78)	(1677%)
FICA	38,758.56	39,340.76	30,424.66	8,916.10	156,198.72	116,983.33	39,215.39	25%
Retirement Contribution	78,530.28	79,709.88	65,136.03	14,573.85	316,480.32	262,458.47	54,021.85	17%
Life & Health Insurance	43,172.81	43,172.81	34,155.75	9,017.06	172,691.28	139,637.75	33,053.53	19%
Workers Compensation								0%
Unemployment Compensation	1,250.00	1,250.00		1,250.00	5,000.00		5,000.00	100%
Post Employment Benefits (OPEB)	73,666.67	73,666.67	74,118.30	(451.63)	294,666.64	296,050.21	(1,383.57)	0%
<b>Total Employee-Related Expenses</b>	<b>741,277.54</b>	<b>750,649.34</b>	<b>632,370.47</b>	<b>118,278.87</b>	<b>2,983,853.84</b>	<b>2,510,855.78</b>	<b>472,998.06</b>	<b>16%</b>
<b>Contracts &amp; Services</b>								
Professional Services-General	186,832.80	205,832.80	152,950.69	52,882.11	785,331.28	290,314.26	495,017.02	63%
Professional Services-Accounting & Auditing	9,770.50	9,770.50	54,000.00	(44,229.50)	39,082.00	64,000.00	(24,918.00)	(64%)
Other Services-General	13,669.16	13,669.16	2,860.57	10,808.59	54,676.64	13,169.07	41,507.57	76%
Other Services-Billing Costs	41,280.00	41,280.00		41,280.00	165,120.00	42,007.50	123,112.50	75%
Public Relations-General	26,541.67	26,541.67	666.04	25,875.63	106,166.64	28,353.17	77,813.47	73%
Public Relations-Procurement Advertising	833.33	833.33		833.33	3,333.32		3,333.32	100%
Communication Services	10,504.99	10,504.99	9,846.65	658.34	42,019.96	99,514.41	(57,494.45)	(137%)
Freight and Postage	2,041.66	2,041.66	63.40	1,978.26	8,166.64	1,061.25	7,105.39	87%



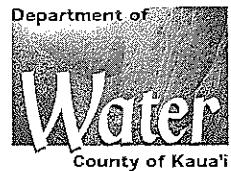
Department of Water, County of Kauai  
Monthly Budget Summary vs. Actual  
SUMMARY  
10/31/2014

	October				FY 2015			
	Original Budget	Revised Budget	Actual	Variance	Revised YTD Budget	YTD Actual	Variance	Variance %
Rentals and Leases	14,916.66	14,916.66	13,960.10	956.56	59,666.64	41,008.20	18,658.44	31%
Insurance	30,000.00	30,000.00		30,000.00	120,000.00	5,025.08	114,974.92	96%
County Service Charge	165,803.50	165,803.50		165,803.50	663,214.00		663,214.00	100%
Repairs and Maintenance-Water System	24,166.66	61,666.66	1,051.30	60,615.36	171,666.64	4,933.99	166,732.65	97%
Repairs and Maint-Non Water System	45,768.32	45,768.32	29,832.34	15,935.98	183,073.28	56,167.58	126,905.70	69%
<b>Total Contracts &amp; Services</b>	<b>572,129.25</b>	<b>628,629.25</b>	<b>265,231.09</b>	<b>363,398.16</b>	<b>2,401,517.04</b>	<b>645,554.51</b>	<b>1,755,962.53</b>	<b>73%</b>



Department of Water, County of Kauai  
 Monthly Budget Summary vs. Actual  
 SUMMARY  
 10/31/2014

	October				FY 2015			
	Original Budget	Revised Budget	Actual	Variance	Revised YTD Budget	YTD Actual	Variance	Variance %
<b>Exceptional Expenses</b>								
FY2014 & FY2015 Kalaeo Emergency			49,681.47	(49,681.47)	499,215.00	207,958.05	291,256.95	58%
FY 2015 Kilauea			13,887.40	(13,887.40)	96,310.42	(96,310.42)	0%	
<b>Total Exceptional Expenses</b>			<b>63,568.87</b>	<b>(63,568.87)</b>	<b>499,215.00</b>	<b>304,268.47</b>	<b>194,946.53</b>	<b>39%</b>
<b>Fuel &amp; Utilities</b>								
Utility Services	308,666.66	308,666.66	277,544.60	31,122.06	1,234,666.64	1,170,399.95	64,266.69	5%
Fuel	17,379.16	17,379.16	11,882.46	5,496.70	69,516.64	46,623.95	22,892.69	33%
<b>Total Fuel &amp; Utilities</b>	<b>326,045.82</b>	<b>326,045.82</b>	<b>289,427.06</b>	<b>36,618.76</b>	<b>1,304,183.28</b>	<b>1,217,023.90</b>	<b>87,159.38</b>	<b>7%</b>
<b>Bulk Water Purchase</b>								
Bulk Water Purchase	172,860.50	172,860.50	132,063.16	40,797.34	691,442.00	544,459.42	146,982.58	21%
<b>Total Bulk Water Purchase</b>	<b>172,860.50</b>	<b>172,860.50</b>	<b>132,063.16</b>	<b>40,797.34</b>	<b>691,442.00</b>	<b>544,459.42</b>	<b>146,982.58</b>	<b>21%</b>
<b>Office &amp; Operating Supplies</b>								
Office Supplies	3,833.33	3,833.33	719.39	3,113.94	15,333.32	4,002.99	11,330.33	74%
Operating Supplies	98,739.22	98,739.22	18,470.10	80,269.12	394,956.88	201,626.08	193,330.80	49%
Books, Subscriptions and Dues	3,032.07	3,032.07	1,014.85	2,017.22	12,128.32	1,579.67	10,548.65	87%
Books, Subscriptions and Dues - Board	100.00	100.00		100.00	400.00		400.00	100%
<b>Total Office &amp; Operating Supplies</b>	<b>105,704.62</b>	<b>105,704.62</b>	<b>20,204.34</b>	<b>85,500.28</b>	<b>422,818.52</b>	<b>207,208.74</b>	<b>215,609.78</b>	<b>51%</b>
<b>Training, Travel &amp; Meeting Expenses</b>								
Training and Development	8,894.55	8,894.55	831.83	8,062.72	35,578.20	14,787.94	20,790.26	58%
Travel and Per Diem	4,628.32	4,628.32	976.64	3,651.68	18,513.32	2,348.47	16,164.85	87%
Travel and Per Diem - Board	1,724.16	1,724.16		1,724.16	6,896.64	170.30	6,726.34	98%
Meeting Expense	3,983.31	3,983.31	2,774.19	1,209.12	15,933.24	24,898.88	(8,965.64)	(56%)
Meeting Expense - Board	1,750.00	1,750.00	200.70	1,549.30	7,000.00	1,393.81	5,606.19	80%
<b>Total Training, Travel &amp; Meeting Expenses</b>	<b>20,980.34</b>	<b>20,980.34</b>	<b>4,783.36</b>	<b>16,196.98</b>	<b>83,921.40</b>	<b>43,599.40</b>	<b>40,322.00</b>	<b>48%</b>
<b>Depreciation &amp; Amortization</b>								
Depreciation			540,329.62	(540,329.62)				
Amortization			51,434.19	(51,434.19)				
<b>Total Depreciation &amp; Amortization</b>			<b>591,763.81</b>	<b>(591,763.81)</b>				
<b>Debt Service</b>								
Interest Expense	341,268.40	341,268.40	331,212.85	10,055.55	1,365,073.64	1,324,851.40	40,222.24	3%
Debt Principal Payment	372,061.33	372,061.33		372,061.33	1,488,245.36	3,470,145.87	(1,981,900.51)	(133%)
<b>Total Debt Service</b>	<b>713,329.73</b>	<b>713,329.73</b>	<b>331,212.85</b>	<b>382,116.88</b>	<b>2,853,319.00</b>	<b>4,794,997.27</b>	<b>(1,941,678.27)</b>	<b>(68%)</b>



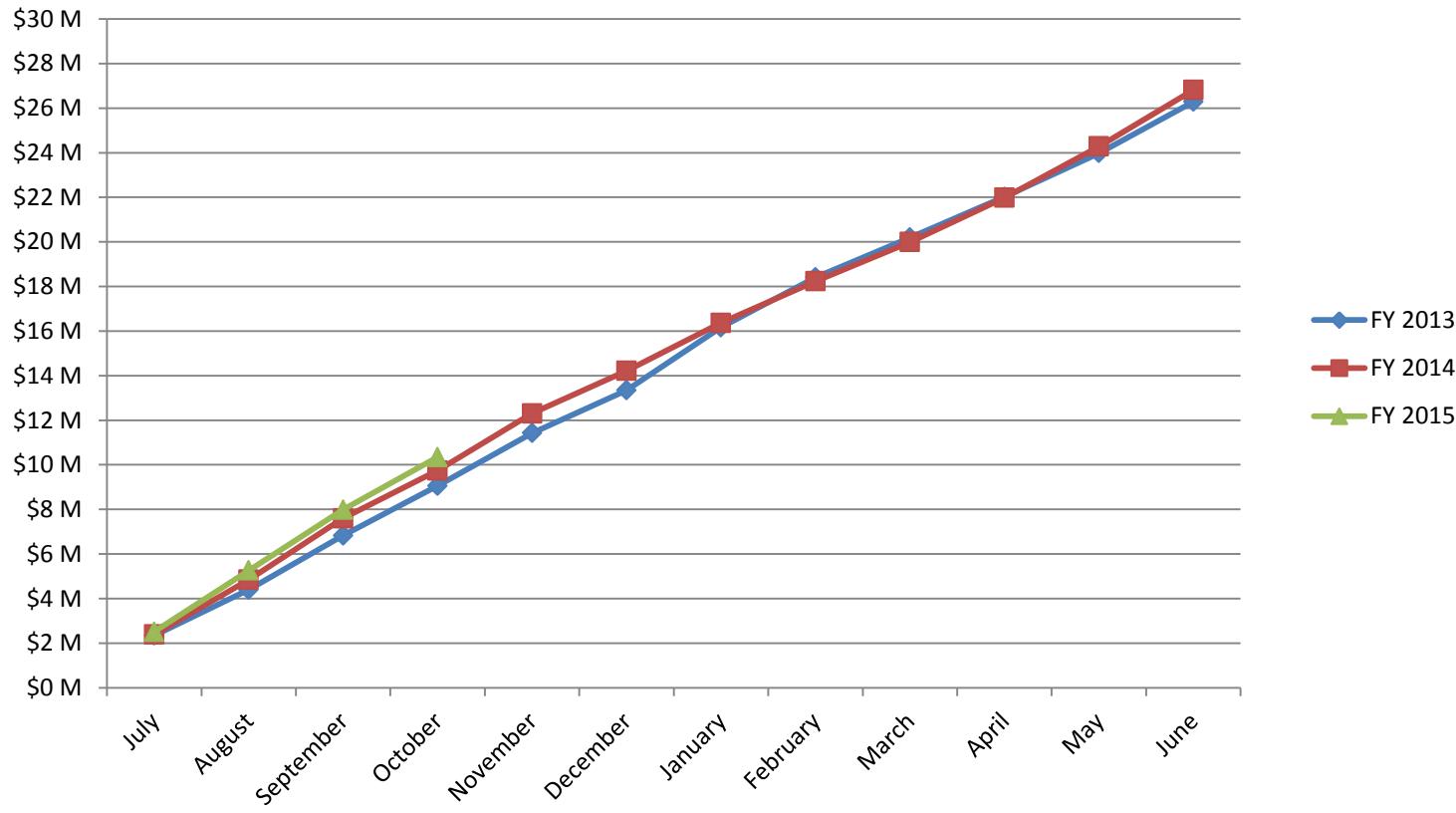
Department of Water, County of Kauai  
Monthly Budget Summary vs. Actual  
SUMMARY  
10/31/2014

	October				FY 2015			
	Original Budget	Revised Budget	Actual	Variance	Revised YTD Budget	YTD Actual	Variance	Variance %
<b>Transfers Out (In)</b>								
Transfers to Other Funds	333,332.67	333,332.67		333,332.67	1,333,330.64		1,333,330.64	100%
<b>Total Transfers Out (In)</b>	<b>333,332.67</b>	<b>333,332.67</b>		<b>333,332.67</b>	<b>1,333,330.64</b>		<b>1,333,330.64</b>	<b>100%</b>
<b>Total Operating Expenses</b>	<b>2,985,660.47</b>	<b>3,051,532.27</b>	<b>2,330,625.01</b>	<b>720,907.26</b>	<b>12,573,600.72</b>	<b>12,712,756.67</b>	<b>(139,155.95)</b>	<b>(1%)</b>
<b>Net Operating Income (Loss)</b>	<b>(\$462,972.77)</b>	<b>(\$528,844.57)</b>	<b>\$54,405.48</b>	<b>\$583,250.05</b>	<b>(\$2,482,849.92)</b>	<b>(\$1,828,339.21)</b>	<b>\$654,510.71</b>	<b>(26%)</b>
Non Operating Proceeds	166,666.67	166,666.67		(166,666.67)	666,666.68		(666,666.68)	(100%)
Capital Projects	3,347,425.61	3,347,425.61	91,581.15	3,255,844.46	15,845,288.44	322,547.59	15,522,740.85	98%
<b>Net Proceeds (Expenditures)</b>	<b>(3,643,731.71)</b>	<b>(3,709,603.51)</b>	<b>(37,175.67)</b>	<b>3,672,427.84</b>	<b>(17,661,471.68)</b>	<b>(2,150,886.80)</b>	<b>15,510,584.88</b>	<b>(88%)</b>

BILLED REVENUES COMPARATIVE REPORT  
As of October FY 2013, 2014 & 2015

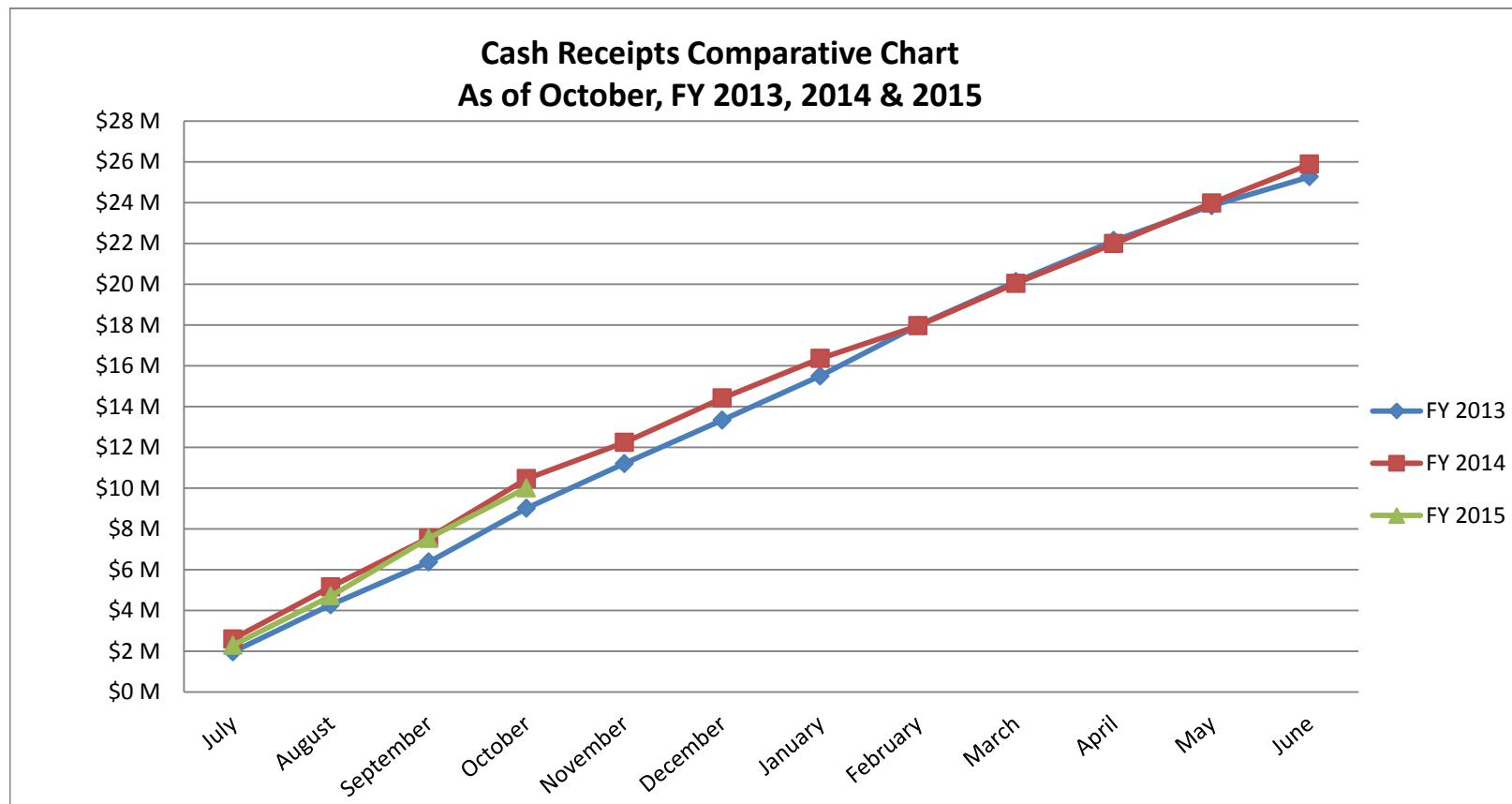
	FY 2013	FY 2014	FY 2015	Cum. Inc (Dec)	% Inc. (Dec.)
July	\$ 2,346,892	\$ 2,389,827	\$ 2,509,308	\$ 119,481	5.00%
August	\$ 4,399,666	\$ 4,846,625	\$ 5,260,587	\$ 413,962	8.54%
September	\$ 6,828,224	\$ 7,600,208	\$ 7,985,071	\$ 384,863	5.06%
October	\$ 9,056,386	\$ 9,747,266	\$ 10,346,368	\$ 599,102	6.15%

BILLED REVENUES COMPARATIVE CHART  
As of October, FY 2013, 2014 & 2015



**CASH RECEIPTS COMPARATIVE REPORT**  
As of October FY 2013, 2014 & 2015

		FY 2013	FY 2014	FY 2015	Cum. Inc (Dec)	% of Inc (Dec)
July	\$	1,964,915	\$ 2,594,170	\$ 2,288,104	\$ (306,066)	-12%
August	\$	4,275,571	\$ 5,157,089	\$ 4,704,550	\$ (452,539)	-9%
September	\$	6,370,743	\$ 7,551,676	\$ 7,539,105	\$ (12,572)	0%
October	\$	9,006,500	\$ 10,458,869	\$ 10,008,958	\$ (449,911)	-4%

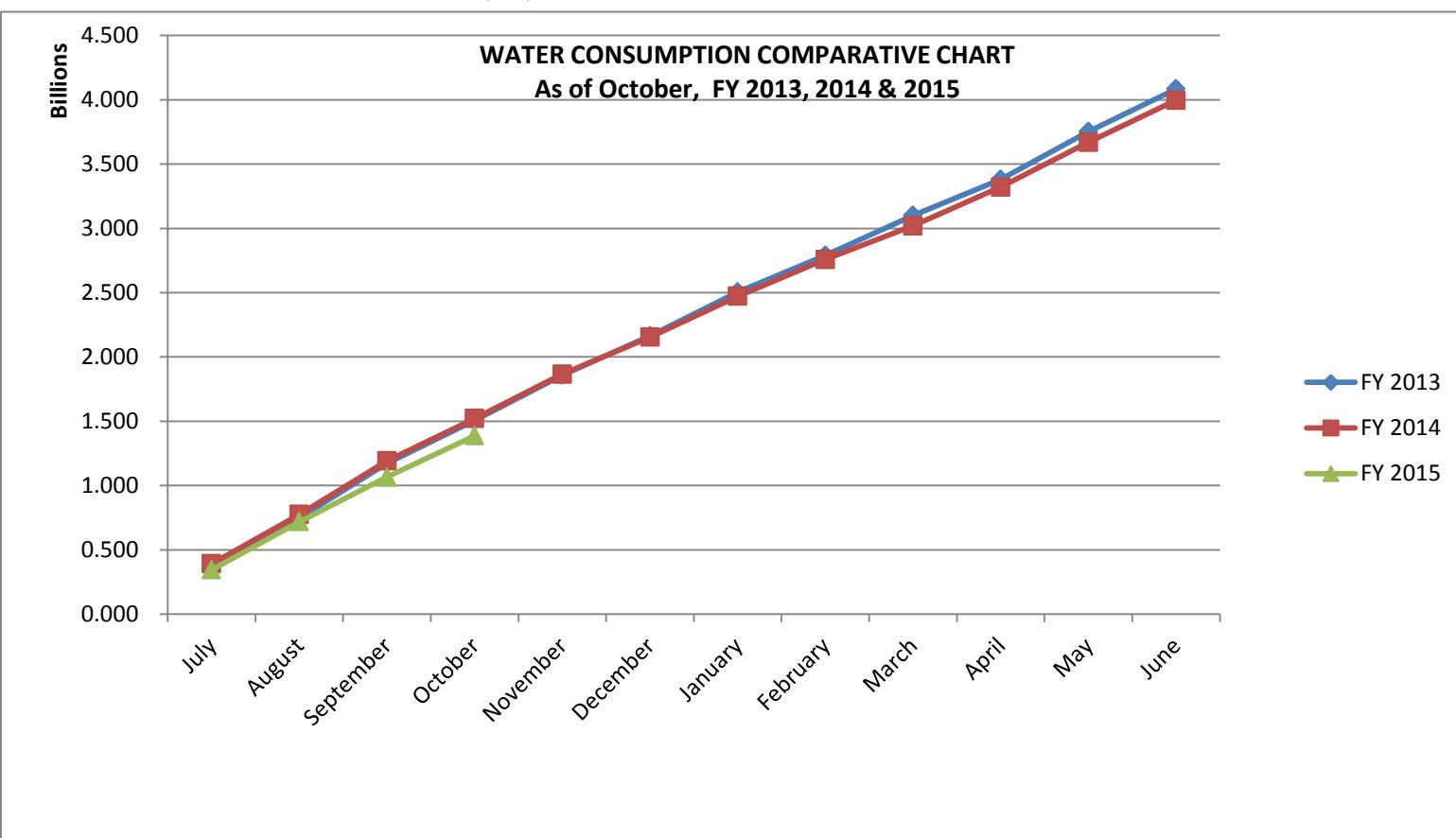


**YTD CONSUMPTION (000 GALLONS) COMPARATIVE REPORT**

As of October FY 2013, 2014 & 2015

(expressed in thousands)

	FY 2013	FY 2014	FY 2015	CUM. INC (DEC)	%
July	349,500	391,161	343,770	-47,391	-12%
August	748,067	774,839	718,498	-56,341	-7%
September	1,172,622	1,191,526	1,065,275	-126,251	-11%
October	1,507,452	1,520,781	1,387,553	-133,228	-9%

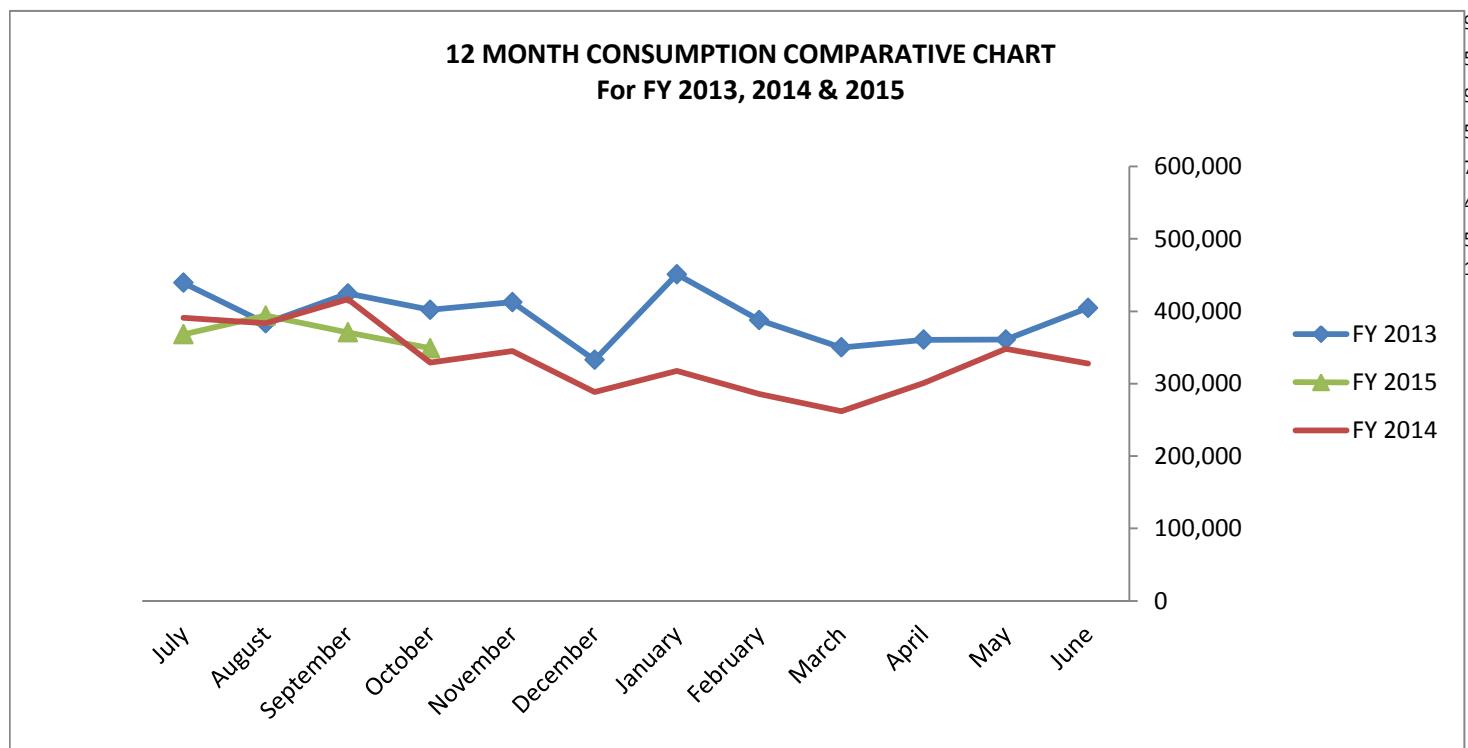


METERED CONSUMPTION (000 GALLONS) MONTHLY COMPARATIVE CHART

As of October FY 2013, 2014 & 2015

(expressed in thousands)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>INC (DEC)</u>
July	436,238	391,161	343,770	-47,391
August	361,599	383,678	374,728	-8,950
September	415,176	416,687	346,777	-69,910
October	384,934	329,255	322,278	-6,977



**Department of Water  
Fiscal Division  
Billing Operating Procedure**

**I. WATER SERVICE APPLICATION:**

**A. INITIATION:**

1. Customer fills out application for Water Service and submits photocopy of Identification Card (IDs), i.e. driver license, State ID; etc.
2. Application for Water Service is received in Billing and reviewed by CSR.
3. Tenant applicants for water service pay a fixed amount for water deposit.

**B. PROCESSING:**

1. Process application. Deposit fee is collected for tenant applicants only.
2. CSR creates new account or update information as necessary in CC&B.
3. If deposit is applicable, CSR processes payment in CC&B.
4. CSR creates a field activity for Meter Readers/ Field Collection Clerks to turn on and read meter.
5. Meter Reader/Field Collection Clerk completes the field activity (F/A); completes the F/A in CC&B and account is activated.

**II. BILL PROCESSING:**

**A. INITIATION:**

1. Meter Reading Routes is prepared for the month through CC&B

**B. PROCESSING:**

1. Meter Readers/ Field Collection Clerks read routes according to schedule daily.
2. Meter Readers/ Field Collection Clerks upload meter reading in Connect 3 software program at the end of the day.
3. Meter Reading is batched and processed in CC&B.
4. Bill is generated.
5. Bills are printed and mailed out to the customers by an outsourced Provider.

**III. PAYMENTS - COLLECTION PROCESS:**

**A. INITIATION: Customer pays DOW bill.**

1. Electronic Bill Pay. Customers set up DOW payment through an outside service provider.
2. Auto Bill Pay. Customer signs up for bill pay should submit ABP authorization form with voided check for checking account only to DOW – Fiscal – billing section. CSR sets up the customer in CC&B for ABP. Payment is electronically deducted from the Customer’s bank account up to the maximum amount authorized.
3. Mail. Customers send check payment through the mail.

4. DOW drop box. Customers drop payment in the DOW drop box.
5. Walk in customer. Customers personally deliver payment to the DOW billing office.

**B. AUTHORIZATION:**

1. Dow Fiscal – Billing Section is authorized to collect cash or checks from Customers for any DOW authorized bills of DOW fees and costs. This includes the following positions:
2. CSR I, CSRII, CS Relations are primarily responsible in processing cash or check collections and posting these payments in CC&B.
3. Meter Readers/ Field Collection Clerks are authorized to receive cash or checks for delinquent accounts scheduled for meter shut off only. Meter Readers/ Field Collection Clerks must issue a receipt to the customer for any collection received in the field and any collection must be remitted to the office for posting by a CSR in CC&B.
4. Billing Accountant II and Accountant IV are authorized support staff of the CSRs to receive payments whenever necessary.

**C. PROCESSING:** DOW receives payment.

1. **Electronic Bill Pay.** Payment is deposited directly to DOW authorized bank account.
2. **Auto Bill Pay.** Payment is deposited directly to DOW authorized bank account.
3. **Mail.** Customers send check payment through the mail. Mails are picked up two times (2X) daily at the post office.
4. **DOW drop box.** Customers drop payment in the DOW drop box and an authorized billing staff checks the DOW drop box daily. This drop box is available 24 hours; it is locked and only authorized billing staff can open the drop box.
5. **Walk in customers.** Customers personally deliver payment to the DOW billing office.

**D. POSTING: Payments are posted to CC&B.**

1. **Electronic Bill Pay.** Payments are posted to CC&B directly and the money is deposited directly to DOW authorized bank account. A daily cash payments report is generated from CC&B that shows total EFT by each service provider.
2. **Auto Bill Pay.** Payments are also posted electronically in CC&B. A daily cash payments report is generated that shows total ABP.
3. **Mail.** CSR's and billing support staff open the mails, verify the checks against the bill stubs, batch the stacks of checks and stubs, add total check amount and reconciles with the total amount of the payment stubs. Scan or manually enter payments in CC&B.
4. **DOW drop box.** Some customers physically drop their payments in the designated DOW drop box. This is available 24 hours; it is locked and only authorized billing staff can open the drop box. This box is opened every morning and payments are posted on the same day it is picked up from the drop box. Payments are processed similar to processing payments of walk in customers.
5. **Walk in customers.** There are 3 designated CSR lobby assigned to receive and process payments on a first come first served basis. Payment is posted immediately upon receipt and a payment receipt is generated for the customer.

**IV. DAILY CASH HANDLING:**

Each CSR is assigned their own drawer. Every day, each CSR starts with a \$200.00 petty cash and must end the day with \$200.00 petty cash.

**PROCEDURE:**

1. Cashier of the day - open deposit control in CC&B.
2. Each CSR verify their own change fund
3. Each CSR– open their own tender control (CSR Lobby) in CC&B to be able to post payment in CC&B.

4. Process payments received from:
  - Walk in customers, first come first served basis
  - DOW drop box – opened every morning when DOW doors are opened to the public
  - Mail – picked up 2x from the Post Office and noon delivery by postal service.
5. Post payments in CC&B.
6. Print receipts for walk in customers – 1 for customer and 1 for cashier if no bill stub accompanied the payment.
7. Print total receipts at the end of day
8. Balance tenders
  - Count cash, balance cash report
  - Add checks, balance check report
9. Each CSR prepares a deposit slip for the total daily receipts.
10. The CSR in charge of the day consolidates each CSR's deposit, verifies tape against total daily receipts per tender, bag and log deposits and put in the safe for service pick up by an authorized provider the following day.

#### **V. REVIEW & RECONCILE: Performed by Accountant II**

2. Print previous day's report generated from CC&B.
  1. Payments Balance Report
  2. Payments Summary GL
  3. Payments Cancellation Report
3. Reconcile the three (3) reports; identify and research variances if any;
  1. NSF checks
  2. Data entry errors
  3. Electronic funds transfer (EFT) incorrect posting
4. Prepare a cash reconciliation worksheet.
  1. Match daily payments report with daily bank activity report.
  2. Identify variances; these could be bank debits or bank credits.
  3. Research the nature of these bank debits and/or credits.
  4. Provide bank debit and/or credit memo to CSR for posting in CC&B.
5. Keep track and monitor NSF posting to CC&B daily and reconcile monthly. Review accounts to ensure NSF charges are posted to the customer's account accordingly.
6. Prepare Journal Entry for review by Accountant IV.

#### **VI. REVIEW AND POST TO GL:**

1. Accountant IV posts daily journal entry to General Ledger in Microsoft Dynamics Great Plains.

STANDARD OPERATING PROCEDURE		S.O.P. No.	XX
DEPARTMENT OF WATER COUNTY OF KAUAI		Supersedes S.O.P. No.	N/A
		Date Effective:	Immediately
Applicable to:  FISCAL DIVISION, ENGINEERING, OPERATIONS & CONSTRUCTION MANAGEMENT	Date First Issued		
	Introduced By:	Marites Yano	
	Page No.		
	Revised By:		
Subject:		<b>Project Cost Accounting</b>	

**PURPOSE:** To establish Standard Operating Procedure for Accounting for Planning, Design and Construction Projects

Based on our understanding of Governmental Accounting Standards Board (GASB) Statement No. 34, paragraphs 18 and 19, the Department of Water defines the following as guidelines to properly implement proper cost accounting;

The process of planning, designing, and executing water infrastructure projects consists of many steps or elements, and there are different accounting rules for the costs of different steps.

***Project Elements - Defined:***

- ***Master Planning:*** Long term analysis of water system requirements to support growth, repair or rehabilitation of existing facilities, identification and preliminary high level analysis of water supply options, system modifications to support Department of Transportation projects and other planning related activities. Master planning is accomplished by either DOW staff, consultants or a team comprised of staff from both organizations. The outcome of this work is typically a schedule and preliminary budget for multiple infrastructure projects, similar to the current 2020 Plan or its revisions.
- ***Feasibility Studies, Environmental Assessments, and Alternative Evaluations:*** Activities associated with developing the most appropriate method of executing a potential project. These may include evaluation of alternative technologies, analysis of alternative routings or locations, land acquisition services, and evaluation of construction sequencing, methods, or materials of construction. These activities may be conducted by DOW staff, consultants or a combination of both. The outcome of this work is typically a preliminary design of a particular project or set of related projects which may include preliminary drawings, schedules, impact assessments as may be required by regulations and budget level cost estimates.
- ***Detailed Design:*** Construction drawings, specifications and construction cost estimates. May also include obtaining the permits necessary to complete a specific project. DOW typically uses consultant organizations to perform this work.

- **Construction:** Acquiring, building and installing new water infrastructure and facilities, including any necessary design revisions during construction. DOW typically uses contractors to perform the construction work and retains their consulting engineers to provide the construction phase design services.
- **Inspection and Documentation:** Construction site inspection to monitor progress and compliance with design and specifications, documentation of what was installed or observed, and preparation of final (as-built) drawings. This includes various project start-up and close-out activities. This work may be performed by DOW personnel, contractors, or a combination of both.
- **Contract Management:** Review of submittals from consulting engineers and contractors to ensure compliance with contract terms and DOW standards, review and approval of payment requests, schedule and budget oversight, and general contract administration. This work is typically performed by DOW project managers.
- **Construction Support:** Operation of the distribution system to support construction activities. This may include providing and monitoring access to DOW facilities, operating existing valves, and temporarily isolating portions of the system (e.g., shut-offs). This work is typically performed by DOW personnel.

**Project Elements – Budgetary & Accounting Treatment:** Following are standard operating procedures to account for the costs associated with each of the elements defined above.

### **1. Operating:**

- **Master Planning-** All costs, whether they be DOW related labor and other expenses or consultant costs, should be treated as routine operating expenses.
- **Feasibility Studies, Environmental Assessments, and Alternative Evaluations-** All costs, whether they be DOW related labor and other expenses or consultant costs, should be treated as routine operating expenses.
- **Detailed Design:** The cost of internal design activities associated with de minimis improvements (e.g., a new meter or hydrant) should be treated as routine operating expenses.
- **Construction:** The cost of field installation activities associated with de minimis improvements (e.g., a new meter or hydrant) should be treated as routine operating expenses.
- **Inspection and Documentation:** All DOW personnel costs should be treated as routine operating expenses. If a contractor is awarded a contract that is strictly or principally for these services, the contract costs should be treated as routine operating (professional services) expenses.
- **Contract Management:** All costs, whether they are DOW related labor and other expenses or consultant costs, should be treated as routine operating expenses.
- **Construction Support:** All costs, whether they are DOW related labor and other expenses or consultant costs, should be treated as routine operating expenses.

## **2. Capital:**

- **Detailed Design:** All consultant contract costs should be capitalized. These costs should be tracked as capital outlay in the year incurred and then posted to the balance sheet at year end. Note: In the future, should DOW employees develop a detailed design for a major project without the assistance of a consulting engineer, then the cost of DOW labor for this design should be capitalized.
- **Construction:** All construction contract costs should be capitalized, as should all design consultant contract costs for services provided during construction. Note: In the future, should DOW employees build or install a major piece of infrastructure, then the cost of DOW labor for this construction work should be capitalized.
- **Inspection and Documentation:** If a consulting engineer or contractor is providing these services as a small (de minimis) part of a contract for detailed design or construction, the entire cost of the contract should be capitalized.

### ***Budgetary & Accounting Treatment – Execution & Implementation:***

- **Budget:** Based on the definitions, budgetary and accounting treatment above, each project must identify the project element as defined above and be budgeted accordingly.
- **Fund Certification:** Before a fund certification is issued and a contract number is assigned, project engineers are required to identify and provide a detailed breakdown of the project elements.
- **Contract Invoicing & Payment.** The progress report for invoicing must identify each cost associated with each project element.
- **Accounting Entry:** Review by Accounting with the project engineers must occur before accounting entry is completed.

APPROVED:

Kirk Saiki  
Acting Manager & Chief Engineer

# DEPARTMENT OF WATER

County of Kaua'i  
"Water has no Substitute – Conserve it!"

## **PR SPECIALIST REPORT**

November 20, 2014

### **Press Releases**

- **October 17, 2014 (Residents advised to conserve water, prepare for potential impact of Hurricane Ana)** – The Department advised all Kauai residents via press release and Facebook, to conserve water and to have their emergency preparedness kits ready for the potential impact of Hurricane Ana. The Department provided tips on how to properly store water, and what to do in a storm if there are electricity and water outages.

### **Published in The Garden Island Newspaper**

- Letter to Editor, "Double standards on water sales," by John Robinson (*Attached*)

### **Project WET for Source Water Protection Education Grant**

PR continued to work on the Project WET for Source Water Protection Education grant contract. Kim Tamaoka gave a presentation on the project at the HWWA 2014 Conference. A casual meeting was held at the conference with a group of individuals interested in the project. Kim is in contact with Hawaii Rural Water Association's Tui Anderson to partner in promoting educational efforts regarding Project WET for Source Water Protection Education. Kim and Tui will proceed with a plan to work with schools on the Big Island and Maui, in promoting the project.

### **Conservation**

The Department's holiday advertisement and water conservation article was published in Kauai Family Magazine's Holiday 2014 Edition. (*Attached*)

A presentation ceremony for the East Kauai and West Kauai Soil and Water Conservation Districts' Outstanding Water Conservationists of the Year were held at the Department on October 21<sup>st</sup>. Congratulations to Eddie Sindt and Steve Sico for their excellent contributions and efforts towards water conservation.

### **Community Outreach**

Kim Tamaoka and Sandi Nadatani-Mendez attended Wilcox Elementary School's Career Day on October 29<sup>th</sup>. Kim gave a presentation to four 1<sup>st</sup> grade classes about the different jobs at the Department and why water is so important in our everyday lives. She also showed students a chlorination test kit, demonstrating how our lab will test for a safe level of chlorine in our water supply. Sandi showed the students how the Department sometimes uses a metal detector to find underground pipes. The students really enjoyed using the metal detector outside of the classroom. Overall, students had a great time and received shower timers, notebooks and pens for participating in career day with the Department.

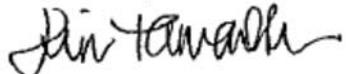
Dustin Moises, Kim Tamaoka and Eddie Doi attended the Kauai County Council's Economic Development (Sustainability/Agriculture/Food/Energy) & Intergovernmental Relations Committee's second informational workshop relating to water, on November 10, 2014. Dustin and

Kim were able to address a number of inaccuracies that were presented by Dr. Adam Asquith in the October 9, 2014 workshop.

**Miscellaneous:**

- Completed the October “As the Water Flows” employee newsletter.
- Completed the Department’s 8-week Mindfulness Workplace Program on October 13<sup>th</sup>.
- The Department provided ice water at the county’s 11<sup>th</sup> Annual Halloween Spooktacular event on October 30<sup>th</sup>. Department representatives Kim Tamaoka, Joel Bautista and Kirk Saiki served refreshments during the costume contest.
- Increased the use of the Department’s Facebook page as an instant communication tool regarding scheduled and unscheduled water outages.

Respectfully submitted,



Kim Tamaoka  
Public Relations Specialist

KT:ein

Attachments:      “Double standards on water sales,” by John Robinson  
Editorial & Ad for Kauai Family Magazine’s Holiday Issue

## Enjoy The Holidays Without Wasting Water

Kauai Department of Water would like to help residents enjoy the holidays without sacrificing our most precious resource. Here are some important tips on how to conserve water in the kitchen not only during this holiday season, but all year round.

- Wait until you have a full load before using your automatic dishwasher.
- Don't let the faucet run while cleaning vegetables. Instead, rinse them in a sink or bowl filled with clean water.
- Steam, rather than boil your vegetables whenever possible. Use a tight lid on the pot, and as a little water as possible.
- Thaw frozen foods ahead of time, not under running water.
- Check faucets and pipes for leaks, including automatic ice makers and dishwasher hoses.

By Kim Tamaoka

- Keep a container of drinking water in the refrigerator. Remember, running the tap to cool water for drinking loses 3 gallons per minute.
- When washing dishes by hand, rinse them first in a sink filled with water, rather than under a running tap.
- Don't overuse garbage disposals. Use the disposal only at the end of cooking or cleanup periods, or when full.
- Restaurants and other food establishments should serve water only upon request. This saves on drinking water plus the water needed to wash glasses.

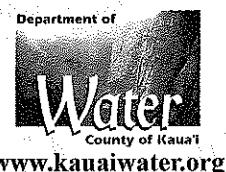
For more water saving tips or more information about the Kauai Department of Water, visit [www.kauaiwater.org](http://www.kauaiwater.org) or call (808) 245-5455. ☎

The Department of Water  
wishes everyone a  
Merry Christmas and a  
Prosperous 2015



### Water Has No Substitute... Conserve It!

It is better to sweep your driveway than to hose it down because there is no need to waste water. Think about water, and when you do, think about conserving it.



# Ready To Go Solar?

Homeowners are turning to solar to reduce their energy costs and increase their savings. And Islandwide Solar want to make the process to be as simple as possible for you. This is what we will provide:

### Energy Analysis

We begin with our complimentary energy assessment.

### Engineering & Design

We place a strong emphasis on our upfront custom design work.

### Construction

Our highly-experienced installers will manage your complete solar installation from the initial phase through making it operational.

### Operations & Maintenance

We will closely manage your solar system including 24-hour monitoring to ensure your system is operating at its optimum efficiency.

**Financing Packages for Zero Money Down, Zero Interest. While supplies last**

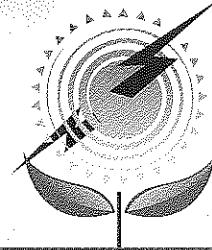


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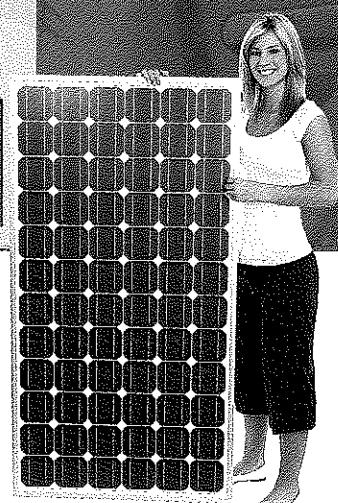
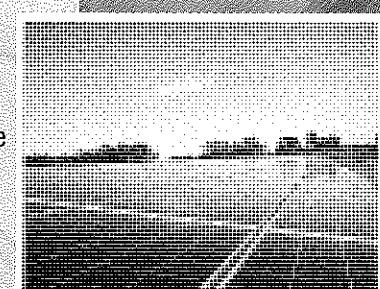
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PAGE 95



**ISLANDWIDE  
SOLAR LLC**



## **Letters for Sunday, November 2, 2014 ----- 6 comments**

### **Double standard on water sales**

Kauai County sells water. It seems to me that the Kauai County is using double standards to protect itself.

Kauai Springs is using a water source provided by Knudsen trust. Why would the county not sue the Knudsens instead? Why is the county able to sell us water then?

Menehune Water does import the smaller bottles from off island but filters and sells us the five- gallon bottles from the warehouse in Puhi using county water.

When will someone from DOW explain the double standards of water sales?

John Robinson

Kalaheo

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**numilalocal** - at 11:35 am Nov 2, 2014

---

Mr Robinson if you don't like all the huu over bottled water sales, then maybe just don't buy the stuff!

---

**truthislaw** - at 8:29 am Nov 2, 2014

---

John Robinson, troll for KS.

Menehune Water abides by the laws and sells municipal water.

Kauai Springs taps directly into a mountain to take Hawaii's resource of water and then CHLORINATES it.

Whether Knudsen Trust or the Satterfields get sued, I don't care. Should be both.

Kauai Springs is breaking the law. Period.

Go back to Alaska where the Indians kicked you out of, Satterfield.

---

**Eagle 6** - at 2:09 am Nov 2, 2014

---

Mr. Robinson asks a very good and simple question. I am looking forward to responses\answers.

---

Mr. Taylor, you are not answering the manager went wrong system all over CA.

What would be your check and balance ? His Honor Babtiste did listen to Mikens about Acrow bridges and thankfully a lot of money was saved. Olahena being a classic example of too much money spent on basically a freeway bridge over a barely trickling creek. I got you on that poor thinking.

I think the other example are the back to back Acrow bridges in Wainiha. (good example)

Island Dredging were total pros putting that together .

Ken, I want to believe in your common sense approach . Again, where is this working ?

Oh as a veteran water man sir--

Tell me why I get skinned on my water bill ? Year after year .

That's my pissoff situation , and I'm giving you a soap box in Trafalgar square to tell me\ us what the county manager would do about that.

And live to an ripe old age. Complete domination by one party since the beginning of statehood .

Major speed bump my friend. But best of luck.

I am on your side of wanting basic common professional thinking.

But as Mick and the boys said fifty years ago, , ,

# DEPARTMENT OF WATER

County of Kaua‘i

*“Water has no Substitute – Conserve It!*

## Operations Division Report for the Month of October 2014

### Personnel

- Clerk-Dispatcher interviews were conducted. Recommendation forwarded to Department of Personnel Services.
- Twenty seven (27) Operations Division personnel attended First Aid-CPR class conducted by Department of Personnel Services.
- Men’s pipe tapping team started practicing to prepare for competition on February 2015.

### Source and Storage

- Maintenance Workers performed routine repair and maintenance of front office/admin facilities.
- Plant Section personnel performed repair and maintenance work within the Lihue-Puhi-Hanamaulu and Kapaa-Wailua sub-systems to address report by State Department of Health during the last month’s sanitary survey.
- Continue cleaning of various remote facilities island-wide.
- Water Plant Operators performed routine inspection and maintenance at all sites including valve maintenance, piping repair and replacement, chlorination equipment maintenance, and mixing of sodium hypochlorite.
- Electrical workers performed routine electrical maintenance at all sites including SCADA radio troubleshooting, electrical wiring for motor controls, lighting repair and replacement.
- Repair work at Kilauea well 1 is complete.

### Distribution

- Operations Division Field Section crews continue to perform routine leak repair of service laterals and mainlines.
- Field Section personnel completed 42 leak repair work orders.
- Field Section personnel continued in-house distribution line replacement along Hehi Road in Hanamaulu.
- Field Section personnel performed live taps to install water service connections.
- 20 water meters were issued and installed.
- We received a total of 45 calls from customers reporting leaks on the mainline, service laterals, meters, meter boxes and fire hydrants including 2 called-in complaints of no water, 2 complaints of low water pressure. Work orders were generated and all calls resolved. Leaks after the meter needs to be addressed by the customer.

## **Fleet, Inventory, Warehouse and Baseyard Area**

- For the month of October, a total of one hundred sixty four (164) work orders were issued for Operations Division. Works included: electrical repairs and maintenance; automotive repairs and maintenance including power generator maintenance; water meter installation and replacement; service lateral installations; leak repairs; well, tank site and PRV maintenance; replace damaged meter boxes; replace damaged or leaking hydrant; door-to-door customer notifications for tie-ins of new lines to existing lines as well as notifications regarding scheduled repairs; callouts due to customer complaints/reports.
- For the month of October 2014, twenty (20) Hawaii One Call requests for markings were received and nineteen (19) were completed. One (1) was a request for markings in Princeville which is privately owned.
- Contract to replace baseyard and remote sites locks and padlocks is executed. Notice To Proceed issued.

Respectfully submitted,



Valentino P. Reyna  
Chief, Operations Division

VPR:ein

Attachments:      Overtime Chart  
                        Leak Report Chart

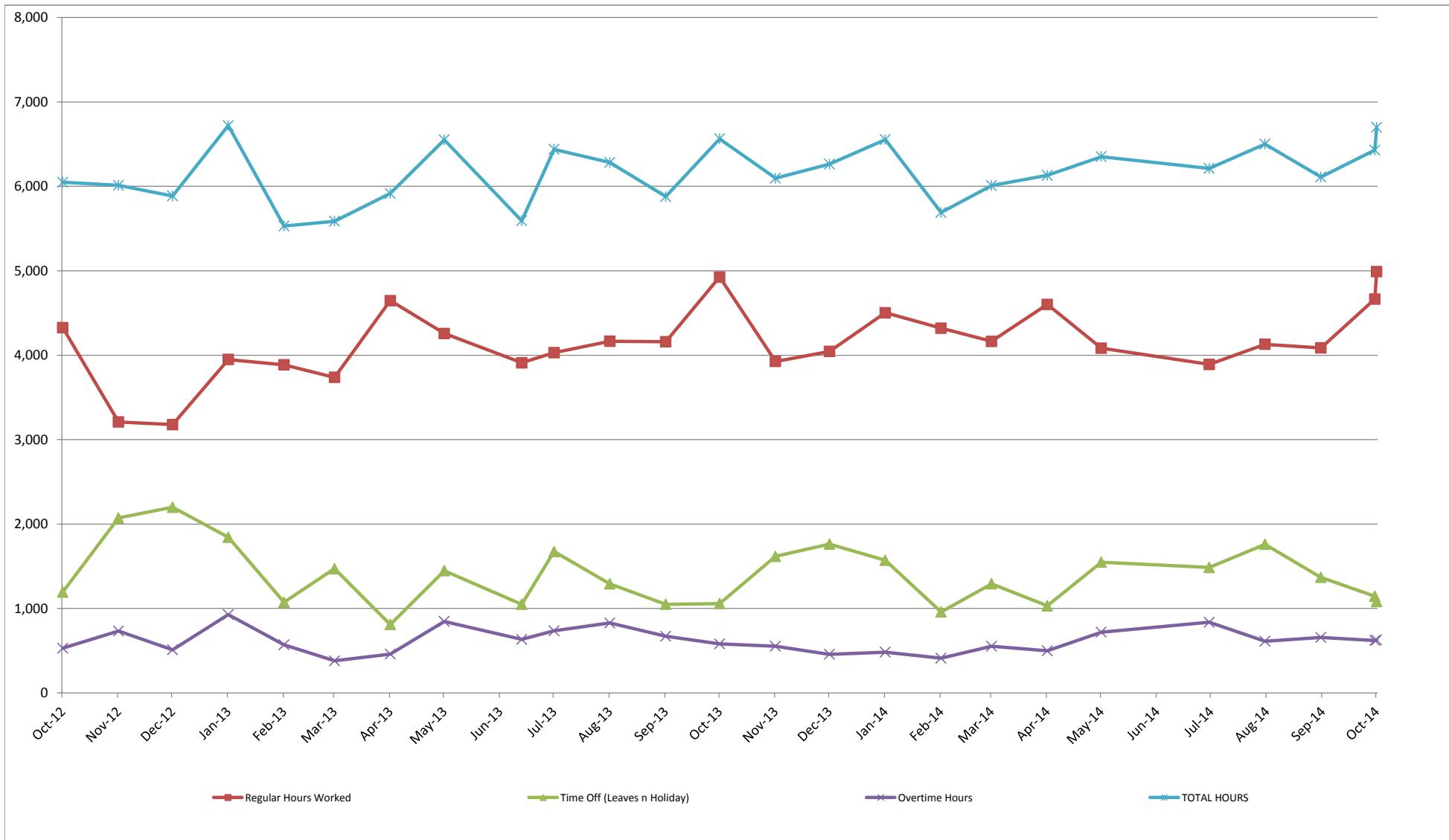
Mgrrp/November 2014/Operations Divison Report for the Month of October 2014 (11-20-14):ein

County Of Kauai - DEPARTMENT OF WATER

Operations Division: Plant & Field

Total Hours for the Month

For the Period: October 2012 to October 2014

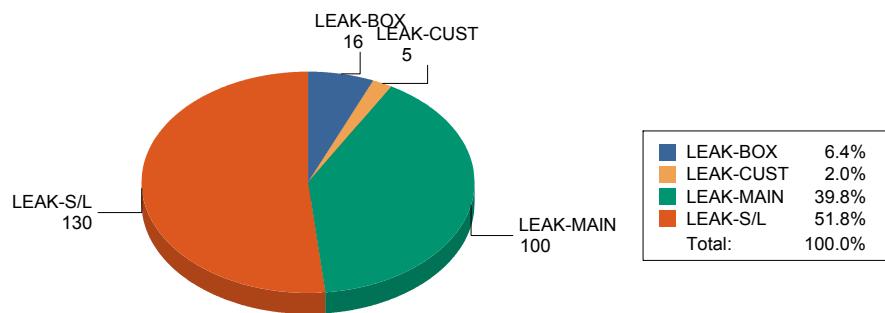
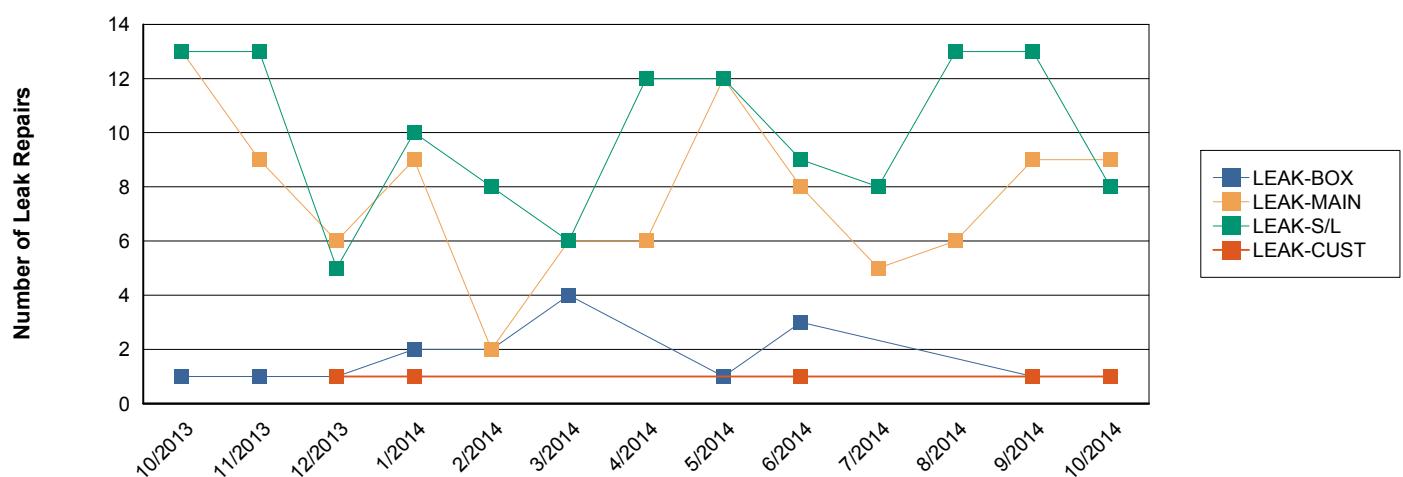


10-Nov-2014

**Work Orders by Job Reason Code for Selected Date Range**

10/01/2013 to 10/31/2014

# of W/O's	Job Reason Code	Description
16	LEAK-BOX	Meter Box Leak Repair
5	LEAK-CUST	Customer-Side Leak Repair
100	LEAK-MAIN	Mainline Leak Repair
130	LEAK-S/L	Service Lateral Leak Repair

**Work Orders by Job Reason Code****Number of Leak Repairs per Month**

# DEPARTMENT OF WATER

County of Kaua'i

*"Water has no Substitute – Conserve It!"*

## MANAGER'S UPDATE

November 20, 2014

## **CONTRACTS AWARDED/EXTENSION/AMENDMENTS:**

**None**

## **WAIVER RELEASE & INDEMNITY APPLICATIONS:**

Applicant	TMK Location & Building permit	Performance Bond Amount
	NONE	

## **STAFF REPORTS - FY 14-15:**

### **PERSONNEL MATTERS UPDATE**

*November 12, 2014*

#### **RECRUITMENT AND POSITION ACTIONS**

##### Operations Division

1. Assistant Water Plant Operator #2410. Interviews held November 5 and 6, 2014.
2. Heavy Vehicle and Construction Equipment Mechanic I #2469. Interviews held November 6, 2014.
3. Pipefitter Helper #2410. Planning interviews for late November 2014.
4. Water Plant Operator I #2414. As of 11/12/2014, no qualified eligibles. DPS continuing with recruitment.
5. Water Plants Superintendent #2490. As of 11/12/2014, DPS reviewing recruitment request.
6. Clerk Dispatcher II. Interviews held. DOW working with DPS to fill position.
7. Welder #2441. Updated position description approved by DPS effective 9/24/2014.

##### Fiscal Division

1. Accountant I #2488 (Accounting Section). Position to be filled effective December 1, 2014.
2. Customer Service Representative I #2433. Position reallocated to CSR I effective November 1, 2014.
3. Waterworks Controller #2300. Re-description review sent to DPS 10/28/2014.
4. Accountant IV #2303. Re-description review sent to DPS 10/28/2014.
5. Accountant III #2356. Re-description review sent to DPS 10/28/2014.
6. Accountant I #2448. Re-description review sent to DPS 10/28/2014.

##### Construction Management Division

1. Project Assistant #2484. As of 11/12/2014, DPS working on position action.
2. Water Inspector II #2483. As of 11/12/2014, DPS working on position action.
3. Waterworks Project Manager #2351. As of 11/12/2014, DPS working on position action.

##### Engineering Division

1. Civil Engineer II #2458. As of 11/12/2014 DOW reviewing position level.
2. Civil Engineer V #2358. As of 11/12/2014, job posting on continuous recruitment.

##### Water Quality Division

1. Chemist #2480. As of 11/12/2014, DPS working on position action.

**MANAGER'S UPDATE**

Re: Manager's Update for October 2014 to November 2014

November 20, 2014

Page 2 of 7

2. Water Microbiologist III #2477. As of 11/12/2014, DPS working on position action.
3. Water Microbiologist IV #2467. As of 11/12/2014, DPS working on position action.

**Water Resources & Planning Division**

1. Chief of Water Resources and Planning #2460. Referred list expired 2/17/2014. No action taken. Position on continuous recruitment.
2. Engineering Drafting Technician III #2352. As of 10/13/2014, DPS reviewing position request.

**Administration**

1. Clerical Assistant (Community Relations) #2499. PD approved and number assigned, effective 11/3/2014.
2. Commission Support Clerk #2493. As of 11/12/2014, pending DPS review of re-description request.
3. Private Secretary #E-35. As of 11/12/2014, pending DPS review of re-description request.
4. Deputy Secretary #2354. As of 11/12/2014, pending DPS review of re-description request.
5. Senior Clerk #2474. As of 11/12/2014, pending DPS review of re-description request.
6. Procurement Specialist #2497. Vacant and no Action.

**SUMMARY OF WARRANT VOUCHERS PAID – October 31, 2014 1,872,468.08****CONVEYANCE OF WATER FACILITIES – \$42,473.00**

11/20/2014	Kenneth A. Souza Jr. Kenneth A. Souza Revocable Living Trust dated July 13, 1993	TMK: 2-7-006:006 TMK: 2-7-006:129	Koloa	\$ 15,120.00
11/20/2014	David A. Stillwell and Jody K. Stillwell, husband and wife Robert J. Stillwell Jr. and Joyce J. Stillwell, husband and wife	TMK: 2-7-004:007	Koloa	\$ 3,700.00
11/20/2014	Joyce Yukiko Kubota, Trustee of the Joyce Yukiko Kubota Trust dated December 21, 1983 Susan Asayo Matsumoto, Trustee of the Susan Asayo Matsumoto Revocable Trust dated August 11, 1992	TMK: 2-4-002:004	Koloa	\$ 5,000.00
11/20/2014	Leonard J. Kaui, Trustee of the Leonard J. Kaui Revocable Living Trust dated March 12, 2002 Luella P. Kaui, Trustee of the Luella P. Kaui Revocable Living Trust dated March 12, 2002	TMK: 4-3-003:015	Kawaihau	\$ 6,700.00
11/20/2014	Miles Togioka, Trustee of the Miles Togioka Revocable Living Trust and the Florence Susan Togioka Revocable Living Trust Florence Susan Togioka, Trustee of the Miles Togioka Revocable Living Trust and the Florence Susan Togioka Revocable Living Trust	TMK: 1-3-010:070	Waimea	\$ 5,000.00
11/20/2014	Kenneth A. Souza Jr. Donna M. Souza	TMK: 3-3-013:031	Lihu'e	\$ 6,953.00
				\$ 42,473.00

**CC&B BILLING SYSTEM UPDATE:***No updates with the CC&B Billing System***IT STRATEGIC PLAN UPDATE:***No updates to the DOW's IT Strategic Plan*

MANAGER'S UPDATE

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**AFFORDABLE HOUSING UPDATE:**

The housing update will be given after the next scheduled affordable housing meeting.

**COUNCIL MEETING – DOW's invitation to the November 10, 2014 Special Economic Development Workshop Relating to Water update:**

The Department attended the second Special Economic Development Workshop Relating to Water on November 10, 2014. The Department was given the opportunity to address the inaccuracies of Dr. Asquith's presentation at the October 9, 2014 workshop. During this workshop, the Department's Public Relations Specialist, Kim Tamaoka along with the DOW's Construction Management Project Officer, Dustin Moises and Water Resources and Planning lead, Mr. Edward Doi attended on behalf of the Department.

*The following testimony was drafted by Dustin Moises and submitted on behalf of the Department of Water:*

November 10, 2014

Members of the Kauai County Council Economic Development & Intergovernmental Relations Committee,

The Kauai Department of Water would like to clarify and comment on statements that were made during the Oct. 9, 2014 information workshop discussing water issues.

The Department of Water has made every attempt to be transparent and uphold our end of the public trust as it relates to the Department of Water. We agree that the geology here on Kauai, specifically the Puhi-Lihue-Hanamaulu area, is different than the other islands across our state. The Department of Water has recognized this through various studies we've partnered in or funded, and it has led us to the decisions we've made over the past 10 to 20 years. One example of this recognition is through our partnership with the United States Geological Survey (USGS), dating back to the early 1990s. We partnered with the USGS to conduct a study on the estimation of groundwater recharge and water use, the drilling and testing of nine new exploratory monitor wells (mostly in the Lihue Basin), the amount of seepage runoff and other analyses to estimate groundwater discharge to streams, and the creation of the numerical groundwater model of the Southern Lihue Basin. All of USGS reports are available to the public.

We understand the committee's intent to become better informed and to engage the community in the broader issue of designating a water management area. Whatever may unfold, the Department of Water respects the legal process and will remain transparent through it as we continue to remain good stewards in upholding the public trust. We will also remain good stewards in upholding our mission, which is to provide safe, affordable and sufficient drinking water through wise management of our resources with excellent customer service for the people of Kauai.

We would like to reiterate that there is a process that must be followed when seeking to designate a water management area. The Department of Water is just another entity within the process, overseen by the Commission on Water Resource Management (CWRM). So it is not our place to comment on specifics within the designation process until a further time when the DOW must be involved. However, in the effort of these council committee workshops to educate and give a full picture to the public, it is fair to mention that should designation occur, there would be a major impact to all end users. There will be legal fees, more permitting, increasing in time to design and construct, and it will ultimately impact everyone using water, from large to small entities.

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When presenting on an issue with such significant impact, there should be factual quantitative and qualitative data relative to current situations.

There are a number of inaccuracies to Mr. Adam Asquith's presentation on Oct. 9, 2014. Stated below are the DOW's clarifications to Mr. Asquith's slides and statements made at that workshop.

**Slide: "Wells in South Puna"**

- Mr. Asquith stated that the DOW has 16 county wells. The DOW actually has 12 active wells in the Puhi-Lihue-Hanamaulu area. We also have 11 inactive or seldom used wells. These wells are inactive or seldom used due to a variety of reasons such as mechanical issues, well properties, hole failure, the well is only for monitoring, and our current use of the Surface Water Treatment Plant.

**Slide: "Water Use Not Reported"**

- The generalization that the DOW has not been reporting all of our wells' monthly usage is misleading. The DOW's operations division does indeed report usage of all wells. We've recently reported monthly well usage annually and this year was no different. As of the Oct. 9, 2014 water workshop, we were up to date in reporting our wells' pumping data as of October 2013. As of today, November 10, 2014, we are fully updated on well reporting as of October 2014.
- Mr. Asquith mentioned that only 6 wells were reported for monthly use in August 2013. In a later slide titled, "Sustainable Yield?" Mr. Asquith references that the August 2013 reported use in the Hanamaulu Aquifer was 0.302 MGD. Mr. Asquith may be confusing the "Hanamaulu Aquifer" with our "Hanamaulu System." Our Hanamaulu System contains 5 developed wells with 1 undeveloped well. The Hanamaulu Aquifer as mapped by CWRM consists of all wells in Puhi, Lihue and Hanamaulu towns, which equals to 23 total wells (12 active and 11 inactive/rarely used). Mr. Asquith should clarify the information he references in this slide.

**Slide: "Metering Inaccurate"**

- It is stated in this slide that, "Many source meters in the Hanamaulu Aquifer are inaccurate, at best, or altogether inoperable." This statement is not accurate. In 2005, our SCADA system that monitors our well pump meter readings was installed. Since then, the system has been fine-tuned and continually maintained. Although there may be a few technicalities from time to time, as expected of any mechanical/electrical equipment, to claim that "many source meters in the Hanamaulu Aquifer are inaccurate, at best, or altogether inoperable" is a stretch. This slide's 2001 reference is arguably outdated and does not reflect the DOW's advanced metering capabilities over the past decade.

**Slide: "Discrepancies in Estimated Use"**

- It is stated in this slide that, "USGS reported that Kauai's 2005 fresh ground water use was 29.11 MGD." This is likely for *all* water users on Kauai, not just the DOW. This would include all private systems around the island, small and large (i.e. Princeville Utilities Company, Inc.).
- It is stated in this slide that, "This is almost three times the County's 2005 reported use of 11.548 MGD." The DOW reported 11.548 MGD at the time because that was our lone usage for all of Kauai. The entire DOW system is included in that number not just the Puhi-Lihue-Hanamaulu area.

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- The DOW's current 2014 usage for all of Kauai is 13 MGD, give or take 1 MGD based on the time of the year and demand. The Puhi-Lihue-Hanamaulu current usage is 1.29 MGD from wells, and 2.03 MGD from the Surface Water Treatment Plant.

**Slide: "Sustainable Yield?"**

- It is stated in this slide that the "Total pump capacity in the Hanamaulu aquifer is 12.6 MGD." This statement is unclear and does not state specific locations and systems.
- It is also stated, "August 2013 reported use in the Hanamaulu Aquifer was just 0.302 MGD or 1% of sustainable yield." This statement should be clarified and referenced to its origin. The DOW uses 1.29 MGD for the entire Puhi-Lihue-Hanamaulu system. Through the Surface Water Treatment Plant we've decreased the groundwater pumpage since 2006. Therefore, pumpage needs have changed since the 2005 report that Mr. Asquith referenced.

**Slide: "Number of wells in the Lihue Basin"**

- The graphic shown in this slide did not have a quantity to reflect the number of wells between 1920 and 2000. Exponential trend may not be so drastic considering population rise. So the quantity of wells and the quantity of "active" wells serves as critical information that must be reflected when interpreting the graph.

**Slide: "Why the Sustainable Yield Estimate Does not Match Observations"**

- It is stated in this slide that, "Wells 'compete' with streams for rainfall recharge." This statement is true, however we would like to question to what degree? That is the critical item. Is it negligible? Is it significant? Stating the degree of competition matters and it should be clarified.
- It is also stated that, "The model and stream gauge data analysis both show that most of the groundwater flowing through the southern Lihue Basin discharges to streams rather to the ocean." Again, we would like to ask to what degree? In addition, when a well is pumping water, what is the impact in volume? Stating quantifiable data is important and relative when making these statements.

**Slide: "USGS study of the effect of ground water pumping of certain wells on stream flow in South Puna"**

- The data in this table should be clarified. Where were the wells? Were there additional future wells that DOW never drilled? What study is this data from? It seems that Mr. Asquith extracted data from the USGS 2002, "Numerical Simulation of Ground Water Withdrawals in the Southern Lihue Basin," report tables. However, this data is a simulation resulting from an additional 0.42 MGD to 1.16 MGD. The placement of wells and the capacity they produce are the factors that affect stream flow, so that should be clarified when relating to the table in this slide. The percentage of these MGD's for new wells, in addition to what we have today, should also be factored into consideration. The DOW is not planning any additional wells and has not drilled or developed any new wells in the Puhi-Lihue-Hanamaulu area for nearly 10 years.
- It is imperative to note that the studies are comprehensive and more detailed than what was stated in the presentation provided by Mr. Asquith. Proper data is needed when interpreting consequences and the magnitude of the consequences should be conveyed. Consequences are minimized by careful placement of wells, and the DOW incorporates data and consequences when making water development decisions.

**Slide: "Projected Growth"**

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- It is stated in this slide that, "In the Hanamaulu Aquifer, water use is expected to increase by at least 35% between 2020 and 2050 (Hawaii Water Plan 2020, 4-8)." It should be clarified that this is referencing the DOW's Water Plan 2020, 4-8, which identifies an anticipated increase in water use of 35% from 2020 to 2050 for the Lihue-Puhi system. DOW's Water Plan 2020 was to develop a long-range plan to guide the DOW for future operations and to identify the needed improvements and facilities required to continue to provide safe, affordable and reliable water service to our communities. The DOW's Water Plan 2020 is a useful tool, but water use may or may not reach 2020 estimates.
- In addition, accurately forecasting growth more than 20 years in advance can prove to be difficult due to many highly variable factors. It is also stated in this slide that, "In 2012, Kauai's population was only 480 persons below the Water Plan 2020's estimated population for 2020." Water produced in 2013 was 3.3 MGD which is 21% below the Water Plan 2020 water use projection of 4.066 MGD. Therefore it is not accurate when Mr. Asquith indicates that the 2020 plan underestimates both population growth and water demand.

### **Slide: "Summary"**

- The DOW cannot speak for other users, but we do know the amount of water we are pumping from our wells through our SCADA metering equipment.
- The observations by Mr. Asquith needs to be clarified with qualified data and should be correlated clearly when presenting to the public, in order to get an accurate and full picture of the situation.
- Well pumping and the relationship to stream flow must be "qualified" and "quantified" for significance of impact.
- The DOW, as a semiautonomous agency of the county, made the decision to utilize surface water to support existing and new customers. Mr. Asquith has recognized this educated decision by the DOW.

### **Slide: "Compelling Logic"**

- The data showing we have a significant ground water problem needs to be elaborated.
- Stating the, "extreme action of the use of stream water and the associated impacts," is slanted, especially without proper data to support such a statement. The DOW recognizes the geological differences we face here in Puhi-Lihue-Hanamaulu. We made an educated decision to move forward with the Surface Water Treatment Plant for efficiency in providing water to our customers.

## **Capital Improvement Projects (CIP) for 2015 Legislative Session update:**

The Department has provided the Board with the final draft for the Department's Capital Improvement Projects for the 2015 Legislative session.

As requested by the Board, the Department has reviewed and re-assessed the Department's CIP request for State funding and has revised the priorities of the projects. Projects were rated on their estimated probability of receiving State funding.

The Department was also asked to consider adding the Kalaheo-Lawai (Jelly Factory) booster pumping station to the Capital Improvement Projects for 2015 Legislative Session list. The Department has decided to not add this project to the request for State funding at this time, but it will be added to the list of future projects to be completed by the Department.

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The final copy of the Capital improvement Projects for the 2015 Legislative Session will be submitted to the Board.

Respectfully submitted,



Kirk Saiki, P.E.

*Acting Manager and Chief Engineer*

KS/mjg

Mgrrp/Manager's Update (11-20-14):mjg

Attachments:      2010 BAB Spend Down Report as of October 2014  
                      2015 Capital Improvement Projects (*hard copy*)

## 2010 Bond Encumbrance and Spend Down Status (Dollars)

