

SPECIAL BOARD MEETING MINUTES  
BOARD OF WATER SUPPLY  
Wednesday, November 5, 2014

The Board of Water, County of Kaua'i, met in a special meeting at its office in Lihu'e on Wednesday, November 5, 2014. Chair Clyde Nakaya called the meeting to order at 10:15 a.m. On roll call, the following answered present:

BOARD: Mr. Clyde Nakaya, *Chair*  
Mr. Sherman Shiraishi, *Vice Chair*  
Ms. Laurie Ho  
Mr. Hugh Strom  
Mr. Ray McCormick  
Mr. Larry Dill

EXCUSED/ABSENT: Mr. Mike Dahilig

Quorum was achieved with 6 members present at roll call.

STAFF: Mr. Kirk Saiki  
Ms. Marites Yano  
Mr. Carl Arume  
Mr. Dustin Moises  
Mr. Val Reyna  
Ms. Kim Tamaoka  
Ms. Regina Flores  
Mr. Keith Aoki  
Ms. Debra Peay  
Ms. Fay Tateishi  
Ms. Ann Parrott  
Ms. Rose Navea  
Ms. Sandi Nadatani-Mendez  
Ms. Mary-jane Garasi  
Deputy County Attorney Andrea Suzuki

GUEST: Mr. James Nakayama, Senior Manager, KMH, LLP  
Mr. Hall Parrott, private citizen

**ACCEPTANCE OF THE AGENDA:**

Mr. Dill moved to accept the agenda; seconded by Ms. Ho; with no objections motion carried with 6 ayes.

**NEW BUSINESS:**

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

Mr. Dill moved to "Receive for the Record" Mr. James Nakayama's Agenda on the Financial Statement Audit Presentation, as of June 30, 2014; seconded by Ms. Ho; with no objections, motion carried with 6 ayes.

**BACKGROUND:**

Mr. Nakayama provided a summary of the draft Audit of Financial Statements for FY 2013-2014. A Single Audit was done because the Department of Water (DOW) spent over \$500,000 which is a compliance for the Federal government.

Opinion (Page 3) – As of June 30, 2014 and 2013, the financial statements presented fairly the financial position of the DOW. Mr. Shiraishi commented that this statement was the same as last year. Mr. Nakayama would discuss the restatement later in the meeting.

Statements of Net Position – June 30, 2014 and 2013 (Page 9) – The statement looked different from last year which now includes a separate category titled, “Deferred Outflow of Resources – Deferred Refunding Costs, Net.” In 2013, the Department adopted a new category of financial statement elements; prepaid asset which are for government purposes. Last year, there were no requirements to move anything to Deferred Outflow because there was nothing for the Department to consider.

When Government Accounting Standards Board 65 (GASB) was adopted in 2014, it moved certain assets and liabilities into Deferred Inflows and Outflows. For the Department, these were related to the bond obligations/bonds payable.

There was a write off of all bond issuance costs (any related bond issuance costs are charged to expenses when incurred vs. deferred on the balance sheet). The Department restated their financial statements for bond issuance costs incurred in the past. The other portion was to reclassify any defeasement gains or losses (refinancing of bonds) which are now defined as Deferred Outflows of Resources. The write off of bond issuance costs are part of the restatement

Second column, 2013 (As Restated) – Adjustments were being recorded to reflect prior years’ adjustment (2012 & 2013 balances that went back further than 2012).

Statements of Revenues, Expenses and Changes in Net Position (Page 11) - Water sales went up slightly with a decrease in consumption. The decrease in consumption was not significant as the water rate increase.

Income before contributions – There was a decrease from last year of \$2.8M to \$385,000.

Change in net position – \$3.2M

Footnote – Details of GASB 65 for 2014 (Page 15)

Footnote #14 Restatements (Page 40) – This described the nature of restatements and adjustments. There were three (3) restatement adjustments, two (2) related to errors and one (1) related to implementation of GASB 65. The total impact and net position in 2013 was \$4.7M. There was a requirement to work with management to record the adjustments by not running into 2014. 2013 had a beginning net position and changes to the revenues and expenses. There were changes in the P&L in 2014.

Refer to Table (Page 41) – showed the results of the adjustments impacted to the previously reported amounts as of the year ending June 30, 2013. Adjustments were 1) Related to Construction in Progress (CIP), 2) Accrued interest receivable adjustment and 3) Implementation of GASB 65.

Mr. Shiraishi noted that the adjustment took into account errors/misstatements in years prior to 2013.

Mr. Nakayama mentioned that the auditors try to catch misstatements. There have been errors in previous audits. Management should be detecting errors because the audit is not part of the internal control functions.

Refer to GASB Report (Page 45)

Refer to Single Audit Report (Page 47)

Schedule of Findings and Questioned Costs (Page 52) – provides the Summary of Auditor’s Results.  
Reported issues included:

- Material weaknesses identified? (No)
- Significant deficiencies identified that are not considered to be material weaknesses reported? (Yes)
- Noncompliance material to financial statements noted? (No)

Material weaknesses are more severe than Significant Deficiencies. The last deficiency is Controlled Deficiencies.

Federal Awards (part of the Single Audit Report -

Internal controls of the major program:

- Material weaknesses identified? (No)
- Significant deficiencies identified that are not considered to be material weaknesses reported? (None)
- Type of auditor’s report issued on compliance for major programs: Unqualified
- Any audit findings disclosed that are required to be reported in accordance with section 10(1) of Circular A-133? (No)

Identified as a major program: Drinking Water Treatment Revolving Loan Fund

Findings 2014-01 – CIP (Page 53) – Write-off of Construction in Progress – Significant Deficiency.  
An adjustment of \$1.8M was uncovered through the cleanup done by the IT consultants.

The Department re-implemented their accounting systems through the CIP account clean up, certain capitalized costs needed to be written-off. The two (2) main projects related to feasibility studies were 1) *Horizontal Well Drilling* and 2) *Kokolau Tunnel* as part of an adjustment. These projects were capitalized in the past year. During one of the years, some of the costs were funded by state grants.

The definition of what should be capitalized and should be adjusted. The Department needs to make sure the projects should be identified in the *front end*. Also the repair and maintenance were missed which should be properly monitored.

Chair Nakaya commented that through the new accounting system, the CIP projects were identified. Mr. Nakayama explained that the two (2) projects would have been expensed anyway. The Horizontal Well Drilling project was not moving forward because there were other issues that stopped the project. The Kokolau Tunnel was discussed last year. By working with management, the cost capitalized to date were to be utilized as a “go forward” basis. As a result, it was not feasible to go forward on the Kokolau Tunnel. As a rule, if the Department has a feasibility study, these projects should be expensed and not capitalized. If the actual underlying assets are not probable, then these projects should not be capitalized. Capitalization is not always black and white. If the Department makes a decision to capitalize a project, it would not distort the ending net position. The net position is limited for items to capital assets. The unrestricted net position is important because it equates to more investments in the funds available for the Department.

Waterworks Controller, Ms. Yano explained that a new Standard Operating Procedure (SOP) started with the budget process where projects in place were identified accordingly for 2014-2015. This was communicated to the engineers and defined what projects are capitalized and not capitalized. The budget was designed where projects were budgeted as operating expenses and capital budget accordingly.

Findings 2014-02 – Reconciliation of Investment Account – Significant Deficiency (Page 54) – The correct title should be Documentation of Journal Entries which would be corrected by Mr. Nakayama.

In 2012, the Waterworks Controller, Ms. Yano was in communication with the County Treasurer regarding the Build America Bond (BAB) investments on the accrued interest and receivable. In the communication, there was a receivable to be recorded and an adjustment was proposed. In the 2012 audit, it was believed that the receivable was not recorded in the books by the Department.

In 2014, the Waterworks Controller, Ms. Yano looked into the matter and the proposed adjustment in 2012 was incorrect. The interest was already being recorded by previous entries. Journal entries need to be supported by appropriate documentation that relate back to the statements and not by the schedule provided by the County. Because of a miscommunication, the adjustment was not necessary because it was a duplicate entry.

Status of Prior Findings (Page 56) - There were four (4) findings which were all resolved (1 material weakness and 3 significant deficiencies from the prior audit).

Findings 2013-01 Inadequate Use of Accounting Software – Material weakness

The Department made steps to work with the consultant in moving to streamline the financial process and utilize the accounting system (i.e., generate reports, streamline closing process).

Mr. Nakayama emphasized that the Department’s analysis is done properly. To flush out potential operating or financial reporting issues may occur.

Finding 2013 – Inventory – Book to Physical Adjustments (Page 57) – Adjustments did not arise this year. Lots of improvements need to be done but there was progress made on prior findings.

Mr. Nakayama thanked the Waterworks Controller, Ms. Yano and her staff for their hard work on the audit.

Mr. Shiraishi moved to receive the Draft Audit of Financial Statements for FY 2013-2014; seconded by Mr. Dill; with no objections, motion carried with 6 ayes.

**ADJOURNMENT**

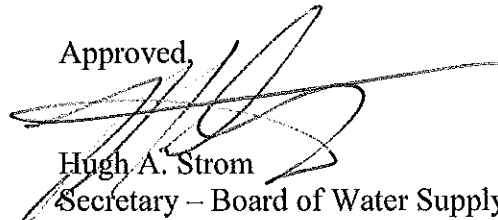
Mr. Shiraishi moved to adjourn the Special Board Meeting at 1:40 p.m.; seconded by Mr. Dill; with no objections; motion carried with 6 ayes.

Respectfully Submitted,



Edie Ignacio Neumiller  
Commission Support Clerk

Approved,



Hugh A. Strom  
Secretary – Board of Water Supply