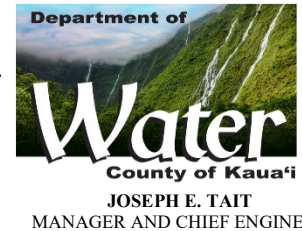


## **BOARD OF WATER SUPPLY**

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**JULIE SIMONTON**, CHAIR  
**TOM SHIGEMOTO**, VICE CHAIR  
**MICAH FINNILA**, SECRETARY

**KURT AKAMINE**, MEMBER  
**KA'AINA HULL**, EX-OFFICIO  
**TROY TANIGAWA**, EX-OFFICIO  
**VACANT**, EX-OFFICIO



### **REGULAR MONTHLY MEETING NOTICE AND AGENDA**

Thursday, March 20, 2025  
9:30 a.m. or shortly thereafter

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

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

<https://us06web.zoom.us/j/88538028300>

**Passcode: 089940**

**OR**

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

**Phone: 888 788 0099 US Toll-free**

**Phone Conference ID: 885 3802 8300**

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

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

### **CALL TO ORDER**

### **ROLL CALL**

### **ANNOUNCEMENTS**

1. Board Workshop for Water Systems Investment Plan - Facilities Reserve Charge (FRC) Update scheduled for April 1, 2025 – 10:00 a.m.
2. Next Scheduled Board Meeting: Thursday, April 17, 2025 – 9:30 a.m.

### **APPROVAL OF AGENDA**

### **MEETING MINUTES**

1. Regular Board Meeting – February 20, 2025

## **PUBLIC TESTIMONY**

### **NEW BUSINESS**

1. *Manager's Report No. 25-24* Discussion and Receipt of the Department of Water's (DOW)'s Financial Statements and Independent Auditor's Report for the Fiscal Year Ended June 30, 2024

### **INFORMATIONAL BRIEFING (Information only; non-action item)**

1. Water Systems Investment Plan (WSIP) presentation:
  - WSIP Overview and Objectives: Purpose and Outcomes, Project Schedule, History of Capital Improvement Projects (CIP), Facilities Reserve Charge (FRC) and Rates
  - CIP Development: Planned Buildout, 20-Year Prioritized, Achievable Prioritized Capital Improvement Projects, Projects Currently In Progress
  - FRC Overview, Definition and Purpose, Key Steps to FRC Calculation

### **STAFF REPORTS**

1. **Fiscal:**
  - a. Monthly dashboard – Number of Service Calls, Number of Walk-in Customers, Number of Customer Emails and Correspondence, Number of Customer Rebills, Accounting Highlights, Transponder Replacement highlights and progress, Staff Overtime hours
  - b. Budget Report for February 2025
2. **Operations**
  - a. Monthly dashboard – Annual Financial Impact Overview, Staff Overtime Hours, Budgeted and Vacant Positions, Services Received/Completed, Highlights: New Hires, Transponders replaced, Training for HazMat Certifications
3. **Engineering**
  - a. Monthly dashboard – Budgeted and Vacant Positions, Staff Overtime Hours, Projects In Design, In Construction, Completed; Water Resources and Planning Statistics – Customer Requests, Applications and Permits, Service and Records Requests, Number of Backflow Devices tested
    - i. Capital Improvement Plan (CIP) Project Highlights/Status Updates:
      - Kapa'a Homesteads 325' Tanks
      - Pu'u Pane 1.0 Million Gallon Tank
      - Kalāheo Water System Improvements
      - Kūhiō Highway (Hardy-Oxford) 18" Main Replacement
      - Weke, 'Anae, Mahimahi and He'e Roads 6" and 8" Main Replacement
      - Hanapēpē Town Well Master Control Center (MCC), Chlorination Facilities
      - Līhu'e Administrative Building Fencing
      - Līhu'e Baseyard Electrical Relocation
    - ii. DOW Project Highlights/Status Updates:
      - Water Systems Investment Plan (WSIP): FRC Update
      - As-Needed Grant Writing and Preparation Services: Drought Resiliency Grant with United States Bureau of Reclamation (USBR) for Haena 0.2 MG Tank Construction; WaterSMART Grant for Advanced Metering Infrastructure (AMI) Meters
      - America's Water Infrastructure Act (AWIA) Risk and Resilience Assessment/Emergency Response Plan

4. **Administration**

- a. Monthly Dashboard – Budgeted Staff/Vacancies, Number of Agreements Processed/Pending, Contracts Executed/Pending, Memorandums of Understanding/Agreement Executed/Pending, Purchase Orders Processed, IT Help Desk Tickets Received/Completed; Staff Overtime Hours
- b. Human Resources – updates on Personnel Vacancies

5. **Manager and Chief Engineer**

- a. Reports to Manager:
  - 1. Contract Award to Paul’s Electrical Contracting, LLC - Job No. 24-14, Lihue Baseyard Electrical Relocation
  - 2. Professional Services DOW-2025-Prof-1, Contract Award to R.M. Towill Corporation – Job No. 25-03, As-Needed Surveying Services 2025-2027
  - 3. Change Order No. 5 to Contract No. 716 with Ronald N.S. Ho & Associates, Inc. – Job No. 21-03, Paua Valley Well MCC Replacement
  - 4. Change Order No. 3 to Contract No. 726 (Hawaiian Dredging Construction Company, Inc.) – Job. No. 09-01, WP2020 #K-01, K-12, Kalāheo Water System Improvements; Package A-0.5 MG Yamada Reservoir; Package B-01 MG Clearwell Reservoir; Package C-Water Main Installation, Kalāheo-Kōloa Water System
  - 5. First Amendment to Contract No. 769 with Compulink Management Center, Inc. dba Laserfiche – IT-2025-01, Document Management Software, Hosting, and Support Services
  - 6. Change Order No. 1 to Contract No. 724 with King Windward Nissan, LLC – GS-2025-01 Furnish and Deliver One (1) King Cab/Access Cab Pickup Truck
  - 7. Contract No. 774, Change Order No. 1 – Job No. 24-15, Lihue Administrative Building Fencing

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

- 1. Discussion and Possible Action on the Department of Water’s (DOW’s) DRAFT Operating and Capital Budgets for FY 2025-2026
- 2. Resolutions for 2024 Employees of the Year

**TOPICS FOR FUTURE BOARD OF WATER SUPPLY MEETING:**

- 1. Discussion and Possible Adoption of Budget Resolution for Department of Water’s (DOW’s) Annual Operating and Capital Budgets for Fiscal Year 2025-2026

**EXECUTIVE SESSION:**

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

**ADJOURNMENT**

## **WRITTEN TESTIMONY**

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

Please include:

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

### Send written testimony to:

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

E-Mail: [board@kaua'iwater.org](mailto:board@kaua'iwater.org)  
Phone: (808) 245-5406  
Fax: (808) 245-5813

## **Public Testimony**

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

### SPECIAL ASSISTANCE

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

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

DRAFT

MINUTES

MINUTES  
BOARD OF WATER SUPPLY  
Thursday, February 20, 2025

The Board of Water Supply, County of Kaua‘i, met in a regular meeting in Lihu'e on Thursday, February 20, 2025. Chair Julie Simonton called the meeting to order at 9:37 a.m. The following Board members were present:

**BOARD:**

Ms. Julie Simonton, *Chair*  
Ms. Micah Finnila  
Mr. Ka‘aina Hull  
Mr. Troy Tanigawa

**EXCUSED:**

Mr. Tom Shigemoto, *Vice-Chair*  
Mr. Kurt Akamine

Quorum was achieved with 4 members present at Roll Call.

**ANNOUNCEMENTS**

Next Scheduled Board Meeting: Thursday, March 20, 2025 – 9:30 a.m.

**APPROVAL OF AGENDA**

**The agenda was approved with no objections**

**MEETING MINUTES**

1. Regular Board Meeting – January 23, 2025

**The minutes of the January 23, 2025 regular meeting were received for the record**

**PUBLIC TESTIMONY**

None

**NEW BUSINESS**

1. *Manager’s Report No. 25-22* Discussion and Possible Action to reappropriate certain budget line items to other line-item budgets for the purpose of compliance with the Temporary Hazard Pay (THP) settlements between the County of Kaua‘i and United Public Workers (UPW) for Bargaining Unit 01 and Hawai‘i Government Employees Association (HGEA) for Bargaining Units 02, 03, 04, 13, and 15.

Vice-Chair Simonton asked what impact this will have on the line items that were defunded to which Waterworks Controller Renee Yadao explained that there was additional budget available in each division, which was used to support this settlement payout. Vice-Chair Simonton expressed concern that it will impact things like Operations being able to purchase supplies and equipment for repairs and such. Ms. Yadao noted that the Pro-Fi loans Jason Kagimoto assisted in securing have helped with funding, which allowed for available budget.

Board member Hull asked if we would be able to utilize DOW’s emergency fund for this considering it was not planned when the budget was initially approved. Ms. Yadao stated the Emergency Fund is reserved for things like natural disasters, so this would not qualify. Mr. Hull pointed out that this settlement applies to work that was done during the emergency declaration resulting from the COVID-19 pandemic. Ms. Yadao offered to look into it but noted that this is an after the fact payout that falls outside of the emergency event. Mr. Hull stated that it is worth

looking into noting that funding for one of our pump stations was drawn from the Emergency Fund 4 years after the related flood event, to which Ms. Yadao clarified that it was for equipment. There was further discussion on recent emergency events and how overtime work was funded in those instances.

Vice-Chair Simonton asked if the Manager's Report could be modified to include a caveat that DOW will consult with legal to determine if the Emergency Fund can be used for this payout, and if so, that would be the funding method approved by the Board. Deputy County Attorney Laura Essenberg advised that if the Board wishes to take action that differs from what it presented in this Manager's Report, that it be deferred to the next board meeting, so the public has a chance to view the new information on the next agenda and is allowed the opportunity to provide testimony. Commission Support Clerk Cherisse Zaima clarified that should the Board choose to defer this item to the March meeting, the payouts to the employees have to be held until the Board's approval takes effect.

Mr. Hull stated that his recommendation would be to approve this item as is but requested that the Department look further into whether or not it would be legal and feasible to use the Emergency Fund, and if so, the Board could then request a reconsideration at the March meeting to discuss whether or not to shift this line item to the emergency fund. Ms. Yadao stated that she would like some clear guidance on how the Emergency Fund would be replenished in the event they do use it for these payouts.

**Board member Hull moved to approve Manager's Report No. 25-22, seconded by Mr. Tanigawa; with no objections, motion carried with 4 Ayes.**

2. *Manager's Report No. 25-23* Discussion and Possible Action to Request Board Approval for Indemnification and Unspecified Future Obligations for Parsons Hawai'i Periodic Motor Vehicle Inspection (PMVI) Program between the Board of Water Supply, County of Kaua'i and Parsons Environment & Infrastructure Group Inc.

**Board member Tanigawa moved to approve Manager's Report No. 25-23, seconded by Ms. Finnila; with no objections, motion carried with 4 Ayes.**

## **STAFF REPORTS**

### **1. Fiscal:**

- a. Monthly dashboard – Number of Service Calls, Number of Walk-in Customers, Number of Customer Emails and Correspondence, Number of Customer Rebills, Accounting Highlights, Transponder Replacement highlights and progress, Staff Overtime hours
- b. Budget Report for January 2025

### **2. Operations**

- a. Monthly dashboard – Annual Financial Impact Overview, Staff Overtime Hours, Budgeted and Vacant Positions, Services Received/Completed

### **3. Engineering**

- a. Monthly dashboard – Budgeted and Vacant Positions, Staff Overtime Hours, Projects In Design, In Construction, Completed; Water Resources and Planning Statistics – Customer Requests, Applications and Permits, Service and Records Requests, Number of Backflow Devices tested
  - i. Capital Improvement Plan (CIP) Project Highlights/Status Updates:
    - Kūhiō Hwy. (Hardy-Oxford) 18" Main Replacement

- Weke, ‘Anae, Mahimahi and He‘e Roads 6” and 8” Main Replacement
- Hanapēpē Town Well Master Control Center (MCC), Chlorination Facilities
- Līhu‘e Administrative Building Fencing
- Līhu‘e Baseyard Electrical Relocation
- Kapa‘a Homesteads 325’ Tanks
- ii. DOW Project Highlights/Status Updates:
  - Kauai Water Use and Development Plan (KWUDP) Update
  - Water System Investment Plan (WSIP) Update
  - As-Needed Grant Writing and Preparation Services: Drought Resiliency Grant with United States Bureau of Reclamation (USBR) for Haena 0.2 MG Tank Construction; WaterSMART Grant for Advanced Metering Infrastructure (AMI) Meters
  - America’s Water Infrastructure Act (AWIA) Risk and Resilience Assessment/Emergency Response Plan

**4. Administration**

- a. Monthly Dashboard – Budgeted Staff/Vacancies, Number of Agreements Processed/Pending, Contracts Executed/Pending, Memorandums of Understanding/Agreement Executed/Pending, Purchase Orders Processed, IT Help Desk Tickets Received/Completed; Staff Overtime Hours
- b. Human Resources – updates on Personnel Vacancies

**5. Manager and Chief Engineer**

- a. Reports to Manager:
  1. Professional Services DOW-2025-PROF-1, Contract Award to Brown and Caldwell; Job No. 25-02, America’s Water Infrastructure Act (AWIA) Risk and Resilience Assessment and Emergency Response Plan Update
  2. Professional Services No. DOW-2025-Prof-1, Contract Award to KMH LLP; Financial Information System Support, As-Needed Consultation Services
  3. Contract Award to ABR Ventures dba Honua Waterworks GS-2025-04 Hydrants & Appurtenances and Various Drinking Water Pipe Repair and Maintenance Fittings
  4. Contract Award to Kauai Mechanical, Inc. GS-2025-05, Service and Maintenance of DOW’s Various Air Conditioning Units
  5. Contract Award to Eurofins Eaton Analytical, LLC Sole Source No. SS-2025-09 Laboratory Testing Services
  6. Additional Encumbrance to Encumber Amount of Contract (C533); Job 09-01, WP2020 #K-01, #K-12, Kalaheo Water System Improvements
  7. Fourth Amendment to Contract No. 567 with Esaki Surveying and Mapping, Inc.; Job No. 12-2, WK-23, U.H. Experimental Station 605’ Tank
  8. Operations Division Budget Reappropriation of Certain Budget Line Items for the Purpose of Ordering and Replenishing Inventory Supplies and Parts

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

1. Resolutions for 2024 Employees of the Year

**TOPICS FOR FUTURE BOARD OF WATER SUPPLY MEETING:**

**EXECUTIVE SESSION:**



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

**ADJOURNMENT**

The meeting was adjourned at 10:13 a.m.

Respectfully submitted,

Cherisse Zaima  
Commission Support Clerk

DRAFT

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

NEW

BUSINESS

# DEPARTMENT OF WATER

County of Kaua'i

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

## MANAGER'S REPORT No. 25-24

March 20, 2025

Re: Discussion and Receipt of the Department of Water's (DOW) Financial Statements, Independent Auditor's Report, Report on Internal Control Over Compliance for a Major Federal Program, and Report on Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2024.

### **RECOMMENDATION:**

It is recommended that the Board receive and accept DOW's audited Financial Statements, Independent Auditor's Report, Report on Compliance for a Major Federal Program (Single Audit), and Report on Schedule of Expenditure of Federal Awards (SEFA).

### **BACKGROUND:**

The DOW's independent auditor, N&K CPAs has completed the audit of the DOW's financial accounts and the internal controls in place for the fiscal year ended June 30, 2024. Additionally, the DOW was subject to a Single Audit in accordance with Uniform Guidance. The DOW expended over \$750,000 in federal awards from the Department of Health, Drinking Water State Revolving Fund program.

The audited Financial Statements as of June 30, 2024 together with the Independent Auditor's Report, Single Audit Report, and SEFA are hereby submitted for your review, discussion, and necessary action. The auditors representing N&K CPAs are available to discuss the results of the audit and to answer any questions the Board may have.

### **OPTIONS:**

**Option 1: It is recommended that the Board review and accept the DOW's Financial Statements, Independent Auditor's Report, Single Audit Report, and SEFA by N&K CPAs, Inc for the fiscal year ended June 30, 2024.**

Pros: Upon Board approval, DOW will be able to transmit the final copy of the audited Financial Statements to the County of Kauai, Department of Finance and transmit the Single Audit to the Federal Audit Clearinghouse by the March 31, 2025 deadline.

Cons: None known.

**Option 2: Do not receive and accept the DOW's Financial Statements Independent Auditor's Report, Single Audit Report, and SEFA by N&K CPAs, Inc for the fiscal year ended June 30, 2024. Do not transmit the audited Financial Statements to the County of Kauai Department of Finance.**

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

Cons: Deferral may affect the County's timeline in finalizing its Annual Comprehensive Financial Report (ACFR) and failure to transmit the Single Audit by the deadline may result in a delinquent status, non-compliance with regulations, and risk current and future receipt of federal funds.

RY/crz

Attachment(s): Department of Water DOW Financial Statements and Independent Auditor's Report FY 2024

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



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

**Fiscal Year Ended June 30, 2024**

**DEPARTMENT OF WATER  
COUNTY OF KAUAI**

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**DEPARTMENT OF WATER  
COUNTY OF KAUAI**

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**Department of Water  
County of Kauai  
INTRODUCTION (Unaudited)  
Fiscal Year Ended June 30, 2024**

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

We are pleased to submit to you the Financial Statements of the Department of Water, County of Kaua'i (Department) for the fiscal year ended June 30, 2024.

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

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

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

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

### **History of the Department**

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

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

### **Mission Statement**

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



**Department of Water  
County of Kauai  
INTRODUCTION (Unaudited)  
Fiscal Year Ended June 30, 2024**

**Department Operations**

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

The Department consists of four divisions: Administration, Fiscal, Engineering, and Operations. There are a total of 119 budgeted positions; of which, 96 were filled as of June 30, 2024.

**Major Initiatives**

In November 2021, the passing of the Bipartisan Infrastructure Law provided for unprecedented funding to support upgrades to the nation's drinking water, with funding dedicated to lead service line replacement and access to federal Drinking Water State Revolving Funds. Through this passing of legislation, water utilities are required to comply with Lead and Copper Rule Revisions with the Environmental Protection Agency (EPA). In August 2022, the EPA issued additional guidance and information to assist water utilities to prepare and maintain an inventory of service line materials by October 16, 2024. The Department completed its lead service line inventory on September 13, 2024.

In February 2022, the Department initiated the Water System Investment Plan (WSIP) project that would span over a two-year period. This project includes updating the water system's geographical information system (GIS) and hydraulic model, water demand study, capital improvement program, FRC, and a climate change and resiliency study. Subsequently, and in November 2023, the WSIP project was amended to include a water rate study utilizing the information and data obtained from the ongoing project. The Department's last water rate increase was in July 2014 and current water rates are only sufficient to cover operational and annual debt service expenses. EPA has proposed new regulations regarding the presence of Per- and Polyfluoroalkyl Substances (PFAS) and additional unregulated but related contaminants as it relates to new monitoring requirements, maximum contaminant levels (MCLs), and public notification requirements. The Engineering Division's Water Quality Section has been anticipating additional EPA mandated regulatory compliance requirements for contaminants and thereby has procured external contracted expertise to assist the Department in remaining compliant. Budgeting for compliance of these previously undetected contaminants will occur in the proposed FY2026 annual budget.

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

In June 2023, a blessing was held for the \$21.8M Kalaheo Water Systems Improvement Project. This is one of the Department's largest projects and will eventually replace two water storage tanks. The project is approximately 55% complete and is anticipated to be completed in 2025.

**Department of Water  
County of Kauai  
INTRODUCTION (Unaudited)  
Fiscal Year Ended June 30, 2024**

In June 2024, the Department awarded approximately \$24.3M and \$7.7M for the Kapaa Homesteads Tanks Project and Kapaa Homesteads Well No. 4 Project, respectively. The Kapaa Homesteads Tanks Project is the largest project in the Department's history and will construct two new water storage tanks. The Kapaa Homesteads Well No. 4 Project is for design, construction, and other related site improvements. Both projects will span over the next two to three years.

**Long-term Financial Planning**

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

- Transponder Replacement Project
- Kalaheo Water System Improvements
- Kapaa Homesteads Tanks
- Weke, Anae, Mahimahi, and Hee Road Main Replacement
- IT Infrastructure Improvements
- ERP Discovery and Selection
- Kuhio Highway Main Replacement
- Kapaa Homesteads Well No. 4 Pump and Controls
- Kilauea Wells No. 1 and No. 2
- Kuamoo Road Water Main Replacement
- Kapaia Cane Haul Road Environmental Impact Statement (EIS)

**Awards**

Annually, the EPA recognizes and awards WaterSense partners who contribute to enhancing the market for water-efficient products, practices, and services. WaterSense recognizes those partners who have gone above and beyond in supporting this program. On September 26, 2024, the Department won its fourth WaterSense Excellence Award for Education, Outreach, and Promoting WaterSense Labeled Products. The EPA recognized a total of 22 Excellence Award winners from approximately 145,000 publicly owned domestic water systems nationwide.



999 BISHOP STREET, SUITE 2200  
HONOLULU, HAWAII 96813  
T (808) 524-2255 F (808) 523-2090

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Department of Water, a component unit of the County of Kauai, as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department of Water, County of Kauai's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Department of Water, County of Kauai, as of June 30, 2024, and the changes in financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department of Water, County of Kauai and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Responsibilities of Management for the Financial Statements

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

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department of Water, County of Kauai's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of Water, County of Kauai's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department of Water, County of Kauai's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 to 18 and the schedules of proportionate share of the net pension liability, contributions (pension), changes in the net OPEB liability and related ratios, and contributions (OPEB) on pages 57 to 62 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary Information**

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

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## Other Information

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

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2025 on our consideration of the Department of Water, County of Kauai's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department of Water, County of Kauai's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Water, County of Kauai's internal control over financial reporting and compliance.

*N + K CPAs, INC.*

Honolulu, Hawaii  
February 28, 2025

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Department of Water  
County of Kauai  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2024**

The management of the Department of Water, County of Kauai (the "Department") offers to readers a narrative overview and analysis of the Department's financial activities for the fiscal year ended June 30, 2024. We encourage readers to consider the information presented here in conjunction with the Department's basic financial statements that follow this section.

**Financial Highlights**

The Department's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by \$230 million, an increase of \$9.2 million from the prior year. Restricted net position increased by \$0.4 million, ending at \$5.6 million. Unrestricted net position decreased by (\$0.4) million, ending at \$18.8 million.

The following explains the significant changes in net position:

- Operating expenses increased by \$5.7 million as compared to the prior year, ending at \$34.7 million.
- Operating revenues decreased by \$1.8 million as compared to the prior year, ending at \$29.1 million.
- Operating revenues and capital contributions exceeded total operating expenses by \$9.2 million, increasing net position.
- Assets, including capital assets, ended at \$318.6 million; an increase of \$15 million or 4.9% from the prior year.

**Overview of the Financial Statements**

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

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



**Department of Water  
County of Kauai  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2024**

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 25 - 55 of this report.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Department's progress in funding its obligation to provide pension and postemployment benefits other than pension (OPEB) to its employees. Required supplementary information can be found on pages 57 - 62 of this report.

**Supplementary Information**

The schedule of utility plant-in-service and schedule of selective account classifications are presented immediately following the required supplementary information on pensions and OPEB. Supplementary information can be found starting on page 64.

**Department of Water  
 County of Kauai  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Fiscal Year Ended June 30, 2024**

**Financial Condition**

**Statements of Net Position - Condensed  
 June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>	<u>2024 - 2023</u>	
			<u>Increase (decrease)</u>	<u>% Change</u>
<b>Assets</b>				
Current assets	\$ 27,875,157	\$ 16,194,257	\$ 11,680,900	72.1%
Net capital assets	246,360,911	240,894,941	5,465,970	2.3%
Other noncurrent assets	44,370,245	46,547,745	(2,177,500)	-4.7%
Total assets	318,606,313	303,636,943	14,969,370	4.9%
Deferred outflows of resources	7,094,900	7,750,280	(655,380)	-8.5%
Total assets and deferred outflows	\$ 325,701,213	\$ 311,387,223	\$ 14,313,990	4.6%
<b>Liabilities</b>				
Current liabilities	\$ 21,750,622	\$ 12,747,085	\$ 9,003,537	70.6%
Noncurrent liabilities				
Bonds payable, noncurrent	34,275,534	37,812,449	(3,536,915)	-9.4%
Notes payable, noncurrent	10,790,245	8,916,937	1,873,308	21.0%
Net pension liability	17,335,567	17,948,894	(613,327)	-3.4%
Net OPEB liability	3,650,143	3,735,663	(85,520)	-2.3%
Other liabilities	1,411,534	1,522,811	(111,277)	-7.3%
Total liabilities	89,213,645	82,683,839	6,529,806	7.9%
Deferred inflows of resources	6,480,280	7,876,976	(1,396,696)	-17.7%
Total liabilities and deferred inflows	\$ 95,693,925	\$ 90,560,815	\$ 5,133,110	5.7%
<b>Net position</b>				
Net investment in capital assets	\$ 205,570,673	\$ 196,424,711	\$ 9,145,962	4.7%
Restricted	5,626,321	5,205,779	420,542	8.1%
Unrestricted	18,810,294	19,195,918	(385,624)	-2.0%
Total net position	\$ 230,007,288	\$ 220,826,408	\$ 9,180,880	4.2%
Total liabilities, deferred inflows, and net position	\$ 325,701,213	\$ 311,387,223	\$ 14,313,990	4.6%

The Department's current assets were 1.3 times its related current liabilities as of June 30, 2024. Current assets and noncurrent assets increased by \$11.7 million and \$3.3 million, respectively. The increase is primarily due to increases in cash and cash equivalents, and current maturing investments, offset by decreases in restricted asset balances. In the fiscal year, the Department recognized approximately \$5.2 million of principal loan forgiveness from the DWSRF as capital contributions.

**Department of Water  
County of Kauai  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2024**

Current liabilities increased by approximately \$9 million, that was primarily attributable to \$4.9 million payable to the County of Kauai for payroll related transactions and a \$1.6 million accrual for COVID-19 temporary hazard pay settlements. Noncurrent liabilities decreased by \$2.5 million and were primarily attributable to principal payments of outstanding bonds and loans of \$5.1 million, a decrease in net pension liability of \$0.6 million, offset by an increase of \$3.7 million in new DWSRF loans. The decrease in the net pension liability was primarily due to a decrease in the Department's proportionate share of the collective net pension liability, changes in assumptions, and favorable differences between projected and actual investment earnings.

As noted earlier, net position may serve over time as a useful indicator of the Department's financial condition. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating. The Department's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$230 million at the close of the fiscal year.

The largest portion of the Department's net position reflects its net investment in capital assets, ending at \$205.6 million or 89.4% of net position. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

The Department's restricted net position category represents \$5.6 million or 2.4% of net position. These restrictions on net position are imposed by enabling legislation or parties outside the government (such as creditors, grantors, contributors, laws or regulations of other governments).

The difference between total net position and the two categories just discussed (net investment in capital assets and restricted net position) is the unrestricted net position. As of June 30, 2024, the Department's unrestricted net position ended at \$18.8 million or 8.2% of net position.

**Department of Water  
 County of Kauai  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Fiscal Year Ended June 30, 2024**

**Results of Operations**

**Statements of Revenues, Expenses and Changes in Net Position - Condensed  
 Fiscal Years Ended June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>	<u>2024 - 2023</u>	
			<u>Increase (decrease)</u>	<u>% Change</u>
Operating revenues	\$ 29,070,094	\$ 30,914,161	\$ (1,844,067)	-6.0%
Operating expenses				
Administration and general	11,503,146	8,688,962	2,814,184	32.4%
Transmission and distribution	7,714,535	5,997,608	1,716,927	28.6%
Depreciation and amortization	6,702,564	6,898,201	(195,637)	-2.8%
Power and pumping	3,389,079	3,196,987	192,092	6.0%
Source of supply	2,662,494	2,512,842	149,652	6.0%
Customers' accounting and collection	1,585,589	1,042,809	542,780	52.0%
Purification	1,116,489	640,486	476,003	74.3%
Total operating expenses	<u>34,673,896</u>	<u>28,977,895</u>	<u>5,696,001</u>	19.7%
Operating income (loss)	(5,603,802)	1,936,266	(7,540,068)	-389.4%
Net nonoperating revenues (expenses)	(255,374)	(2,654,219)	2,398,845	-90.4%
Capital contributions	<u>15,040,056</u>	<u>4,701,101</u>	<u>10,338,955</u>	219.9%
Change in net position	<u>9,180,880</u>	<u>3,983,148</u>	<u>5,197,732</u>	130.5%
Net position				
Beginning of year	<u>220,826,408</u>	<u>216,843,260</u>	<u>3,983,148</u>	1.8%
End of year	\$ <u>230,007,288</u>	\$ <u>220,826,408</u>	\$ <u>9,180,880</u>	4.2%

The Department's operating revenues ended at \$29.1 million, a decrease of approximately \$1.8 million, as compared to the prior year. The overall decrease in revenues is directly attributed to island-wide failures of transponder units.

Overall operating expenses increased by approximately \$5.7 million compared to the prior year, ending at \$34.7 million. Major factors may be attributable to a combination of the following:

- As mentioned previously, the Department accrued an estimate of \$1.6 million in COVID-19 temporary hazard pay settlements. This amount is reflected in operating expenses. Additional information can be found in Note O in the notes to the basic financial statements.
- Administration and general increased by \$2.8 million. The increase is primarily due to increases in professional services, temporary hazard pay settlement accrual, and insurance premiums as compared to the prior year.
- Transmission and distribution increased by \$1.7 million. The increase is primarily due to the temporary hazard pay settlement accrual, equipment purchases such as meters, transponders, and registers.

**Department of Water  
 County of Kauai  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Fiscal Year Ended June 30, 2024**

- Large expenses came from the funding of OPEB and pension; whereby, qualified employees are promised specific healthcare and pension related benefits upon separation and/or retirement. The Department paid 100% of its annual required contribution (ARC) for OPEB, amounting to \$1 million and pension expense of \$1.5 million in the current fiscal year. Additional information surrounding pension and OPEB can be found in the notes to the basic financial statements and required supplementary information in Notes L and M, respectively.
- Net nonoperating revenues (expenses) increased by approximately \$2.4 million. The increase was primarily due to increases in net realized and unrealized gains on investments.
- Capital contributions increased by approximately \$10.3 million. The increase was primarily due to principal forgiveness from DWSRF loans, State Appropriation funded projects, FRC and conveyances from new developments and residential properties requiring water from the Department.

**Capital Assets and Debt Administration**

**Capital Assets**

The Department's net capital assets as of June 30, 2024, amounted to \$246.4 million. Capital assets include land, buildings and improvements, machinery and equipment, infrastructure (e.g., transmission and distribution, pipelines), right-to-use lease assets, right-to-use subscription assets, and construction-in-progress (CIP), less accumulated depreciation and amortization. Most capital projects pass through construction-in-progress before being capitalized because of the multi-year completion process.

**Summary of Capital Assets  
 June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
Non-depreciable assets:		
Land	\$ 1,307,422	\$ 1,307,422
CIP	<u>18,826,579</u>	<u>8,489,135</u>
	<u>20,134,001</u>	<u>9,796,557</u>
Depreciable assets:		
Utility plant	340,103,911	339,663,936
General plant	25,434,404	25,440,887
Intangible	2,269,937	2,224,382
Less: accumulated depreciation and amortization	<u>(142,193,381)</u>	<u>(136,230,821)</u>
	<u>225,614,871</u>	<u>231,098,384</u>
Lease assets, net	<u>61,120</u>	<u>--</u>
Subscription assets, net	<u>550,919</u>	<u>--</u>
Total capital assets, net	<u>\$ 246,360,911</u>	<u>\$ 240,894,941</u>

**Department of Water  
County of Kauai  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2024**

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

- Multiquip generator equipment.
- Fleet vehicle additions.
- Kalaheo Water Systems Improvement Project

The Kalaheo Water Systems Improvement Project is approximately 55% completed and will eventually replace two water storage tanks. This project is anticipated to be completed in 2025.

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

**Long-term Debt**

At the end of the fiscal year, the Department had total bonds and loans outstanding of \$50.4 million. Of this amount, \$37.8 million is comprised of debt backed by the full faith and credit of the County government (general obligations) and \$12.6 million represents DWSRF loans used to finance construction projects.

There were \$3.7 million in new DWSRF loans during the fiscal year. There were no new general obligation bonds issued. The Department's debt to equity ratio was 21.9% and 24.8% at June 30, 2024 and 2023, respectively.

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

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

**Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

**Department of Water  
 County of Kauai  
 STATEMENT OF NET POSITION  
 June 30, 2024**

**ASSETS**

Current assets

Cash and cash equivalents	\$	12,834,771
Investments		9,188,911
Receivables		
Accounts, net of allowance for doubtful accounts of approximately \$332,000		2,341,805
Unbilled accounts		1,863,233
Grants and subsidies		187,428
Accrued interest		142,862
Materials and supplies		1,296,642
Prepaid expenses		19,505
Total current assets		27,875,157

Restricted assets

Facility reserve charge funds		
Cash and cash equivalents		3,983,449
Grants and subsidies		80,326
Bond funds		
Cash and cash equivalents		2,309,610
Investments		8,567,773
Accrued interest		62,921
Other		
Cash and cash equivalents		1,664,786
Grants and subsidies		1,499,625
Total restricted assets		18,168,490

Investments, noncurrent 26,201,755

Capital assets, net 246,360,911

Total assets 318,606,313

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources related to pensions		5,626,927
Deferred outflows of resources related to OPEB		1,467,973
Total deferred outflows of resources		7,094,900

Total assets and deferred outflows of resources \$ 325,701,213

See accompanying notes to financial statements.



**Department of Water  
 County of Kauai  
 STATEMENT OF NET POSITION (Continued)  
 June 30, 2024**

**LIABILITIES**

<b>Current liabilities</b>	
Current portion of long-term debt	\$ 5,334,674
Accounts payable and accrued liabilities	11,478,535
Contracts payable, including retainages	832,891
Unearned revenue	1,664,786
Accrued compensated absences	682,149
Subscription liability	151,732
Pollution remediation obligation	611,957
Customer deposits	<u>993,898</u>
Total current liabilities	<u>21,750,622</u>
<b>Noncurrent liabilities</b>	
Long-term debt, net of current portion and unamortized premiums	45,065,779
Net pension liability	17,335,567
Net OPEB liability	3,650,143
Accrued compensated absences, net of current portion	978,314
Subscription liability, net of current portion	372,100
Lease liability	<u>61,120</u>
Total noncurrent liabilities	<u>67,463,023</u>
Total liabilities	<u>89,213,645</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred gain on refunding	72,865
Deferred inflows of resources related to pensions	4,054,013
Deferred inflows of resources related to OPEB	<u>2,353,402</u>
Total deferred inflows of resources	<u>6,480,280</u>

**NET POSITION**

Net investment in capital assets	205,570,673
Restricted for capital activity	5,626,321
Unrestricted	<u>18,810,294</u>
Total net position	<u>230,007,288</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>325,701,213</u>

See accompanying notes to financial statements.

**Department of Water  
 County of Kauai  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 Fiscal Year Ended June 30, 2024**

<b>OPERATING REVENUES</b>	
Water sales	\$ 26,714,883
Other water revenue	
Public fire protection service	2,228,166
Other	<u>127,045</u>
Total operating revenues	<u>29,070,094</u>
<b>OPERATING EXPENSES</b>	
Administration and general	11,503,146
Transmission and distribution	7,714,535
Depreciation and amortization	6,702,564
Power and pumping	3,389,079
Source of supply	2,662,494
Customers' accounting and collection	1,585,589
Purification	<u>1,116,489</u>
Total operating expenses	<u>34,673,896</u>
Operating loss	<u>(5,603,802)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment gain, net	2,035,309
Interest expense	<u>(2,290,683)</u>
Total nonoperating expenses, net	<u>(255,374)</u>
Loss before contributions	(5,859,176)
<b>CAPITAL CONTRIBUTIONS</b>	
Change in net position	<u>15,040,056</u>
<b>NET POSITION</b>	
Beginning of year	<u>220,826,408</u>
End of year	\$ <u>230,007,288</u>

See accompanying notes to financial statements.

**Department of Water  
 County of Kauai  
 STATEMENT OF CASH FLOWS  
 Fiscal Year Ended June 30, 2024**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from customers	\$ 26,499,991
Payments to suppliers for goods and services	(13,643,839)
Payments to employees for services	<u>(8,429,369)</u>
Net cash provided by operating activities	<u>4,426,783</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(10,036,606)
Proceeds from capital contributions	15,549,827
Proceeds from long-term debt	3,717,581
Principal payments on long-term debt	(5,099,968)
Interest paid on long-term debt	(2,408,212)
Principal payments on subscription liabilities	(76,667)
Interest paid on subscription liabilities	<u>(3,130)</u>
Net cash provided by capital and related financing activities	<u>1,642,825</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of investments	(3,191,660)
Sales and maturities of investments	6,581,300
Interest on investments	<u>907,102</u>
Net cash provided by investing activities	<u>4,296,742</u>
Net increase in cash and cash equivalents	10,366,350

**CASH AND CASH EQUIVALENTS**

Beginning of year	<u>10,426,266</u>
End of year	\$ <u><u>20,792,616</u></u>

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

Unrestricted	\$ 12,834,771
Restricted - Facility reserve charge funds	3,983,449
Restricted - Bond funds	2,309,610
Restricted - Other	<u>1,664,786</u>
	\$ <u><u>20,792,616</u></u>

See accompanying notes to financial statements.

**Department of Water  
 County of Kauai  
 STATEMENT OF CASH FLOWS (Continued)  
 Fiscal Year Ended June 30, 2024**

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

Operating loss	\$	(5,603,802)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization		6,702,564
Decrease (increase) in assets and deferred outflows of resources:		
Accounts receivable		(1,018,791)
Unbilled accounts		599,831
Materials and supplies		(163,776)
Prepaid expenses and other		34,172
Deferred outflows of resources		655,380
Increase (decrease) in liabilities and deferred outflows of resources:		
Accounts payable and accrued liabilities		5,612,488
Accrued compensated absences		279,665
Pollution remediation obligation		(658,501)
Customer deposits		77,023
Net pension liability		(613,327)
Net OPEB liability		(85,520)
Deferred inflows of resources		(1,390,623)
Net cash provided by operating activities	\$	<u><u>4,426,783</u></u>

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

Net increase in fair value of investments	\$	1,112,679
Capital contributions - conveyances of capital assets	\$	305,096
Capital asset additions included in contracts and accounts payable at year end	\$	2,859,089
Subscription and lease assets acquired by assuming directly related liabilities	\$	661,619
Amortization of bond premium	\$	51,988

See accompanying notes to financial statements.

**Department of Water  
County of Kauai  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2024**

**NOTE A - BACKGROUND**

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

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

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

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Department of Water  
County of Kauai  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2024**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (4) **Cash and Cash Equivalents** - The Department's cash and cash equivalents includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.
- (5) **Investments** - Investments are measured at fair value, except for non-negotiable certificates of deposit which are recorded at amortized cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in the fair value of investments are recognized in investment gain (loss) in the accompanying statement of revenues, expenses, and changes in net position. The cost of securities sold is generally determined by the weighted average method.
- (6) **Materials and Supplies** - Materials and supplies are stated at average cost. The cost of materials and supplies are recorded as expenses when consumed rather than when purchased.
- (7) **Receivables** - Receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Department's best estimate of the amount of probable credit losses in the Department's existing receivables. The Department determines the allowance based on past collection experience and the length of time individual receivables are past due. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.
- (8) **Restricted Assets** - Restricted assets are comprised of cash and cash equivalents, investments, and accrued interest maintained in accordance with bond resolutions and other agreements for the purpose of funding capital improvements of the water system. When both restricted and unrestricted assets are available for use, it is the Department's policy to use restricted assets first, then unrestricted assets as they are needed.
- (9) **Capital Assets** - Purchased or constructed capital assets in excess of \$5,000 are reported at cost. Contributed capital assets are reported at cost or estimated cost at the date of donation. Maintenance and repairs are charged to operations as incurred.

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

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

**Department of Water  
County of Kauai  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2024**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (10) **Leases, as lessee** - A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.

At the commencement of the lease term, the Department recognizes a lease liability and an intangible right-to-use lease asset (lease asset). The lease liability is initially measured at the present value of payments expected to be made during the lease term. The future lease payments are discounted using the interest rate the lessor charges the Department, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the Department, the Department's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) is used.

Subsequent to the commencement of the lease term, the lease liability is reduced by the principal portion of lease payments made and the amortization of the discount on the lease liability is reported as interest expense in the statement of revenues, expenses, and changes in net position.

Lease assets are recorded as the sum of the following, 1) the amount of the initial measurement of the lease liability, 2) lease payments made to the lessor at or before the commencement of the lease term, less any incentives received from the lessor at or before the commencement of the lease term, and 3) initial direct costs that are ancillary charges necessary to place the lease asset into service.

Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The amortization of the lease asset is reported as depreciation and amortization expense in the statement of revenues, expenses, and changes in net position.

- (11) **Subscription-Based Information Technology Arrangements** - A subscription based information technology arrangement (SBITA) is a contract that conveys control of the right to use another party's information technology (IT) software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction.

At the commencement of the SBITA term, the Department recognizes a subscription liability and an intangible right-to-use asset (subscription asset). The subscription liability is initially measured at the present value of subscription payments expected to be made during the SBITA term. The future subscription payments are discounted using the interest rate the SBITA vendor charges the Department, which may be the interest rate implicit in the SBITA. If the interest rate cannot be readily determined by the Department, the Department's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term) is used.

**Department of Water  
County of Kauai  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2024**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Subsequent to the commencement of the SBITA term, the subscription liability is reduced by the principal portion of subscription payments made and the amortization of the discount on the subscription liability is reported as interest expense in the statement of revenues, expenses, and changes in net position.

Subscription assets are recorded as the sum of the following, less any SBITA vendor incentives received from the SBITA vendor at the commencement of the subscription term, 1) the amount of the initial measurement of the subscription liability, 2) payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, and 3) capitalizable initial implementation costs.

Subscription assets are amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets. The amortization of the subscription asset is reported as depreciation and amortization expense in the statement of revenues, expenses, and changes in net position.

Activities associated with a SBITA - other than the Department making subscription payments to the SBITA vendor for the right to use the underlying IT assets - are grouped into the following stages:

- a) *Preliminary Project Stage.* Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the SBITA. Outlays associated with activities in the preliminary project stage are expensed as incurred.
- b) *Initial Implementation Stage.* Activities in this stage include ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT assets. Other ancillary charges necessary to place the subscription asset into service also should be included in this stage. The initial implementation stage for the SBITA is completed when the subscription asset is placed into service. Outlays associated with activities in the initial implementation stage generally should be capitalized as part of the subscription asset.
- c) *Operation and Additional Implementation Stage.* Activities in this stage include maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets. Activities in this stage also may include additional implementation activities that occur after the subscription asset is placed into service. Outlays in this stage that are associated with operational activities are expensed as incurred unless they meet specific capitalization criteria related to either the increase in functionality or efficiency of the subscription asset.



**Department of Water  
County of Kauai  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2024**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (12) **Deferred Outflows and Inflows of Resources** - Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that apply to a future period.
- (13) **Net Position** - Net position comprises the various accumulated net earnings from operating and non-operating revenues, expenses, and capital contributions. Net position is classified in the following three components: net investment in capital assets, restricted for capital activity, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments at year-end are not included in the calculation of net investment in capital assets. Restricted for capital activity consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net position not included in the above categories.
- (14) **Operating Revenues and Expenses** - The Department distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Department's principal ongoing water operations. The principal operating revenues are from charges for water usage, while operating expenses include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.
- (15) **Revenue Recognition** - The Department recognizes revenue on the accrual method of accounting as services are rendered. Revenue recognized for services rendered but not billed is reflected as unbilled accounts receivable in the accompanying statement of net position.
- (16) **Capital Contributions** - Capital contributions are comprised of cash received by the Department to fund capital improvements to the water supply system, including principal forgiveness of State Revolving Fund loans, and contributions of capital assets from governmental agencies, developers and customers. The Department recognizes revenue on these nonexchange transactions when all applicable eligibility requirements are met.
- (17) **Facilities Reserve Charge** - Under the authority provided to the Board, the Department assesses a fee to commercial and residential developers based upon the number and size of water meters installed at respective projects. These fees are restricted to fund the capital improvements of the water supply system and recorded as capital contributions in the statement of revenues, expenses, and changes in net position.

**Department of Water  
County of Kauai  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2024**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (18) **Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (the "ERS") and additions to/deductions from the ERS's fiduciary net position have been determined using the accrual basis of accounting, which is the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Plan investments are reported at fair value.
- (19) **Postemployment Benefits Other Than Pensions ("OPEB")** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- (20) **Risk Management** - The Department is exposed to various risks of loss from: (1) torts; (2) theft of, damage to, and destruction of assets; (3) employee injuries and illnesses, (4) natural disasters; (5) employee health, dental, and accident benefits; and (6) miscellaneous others. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims in excess of this commercial coverage were not significant in any of the three preceding years. The Department is self-insured for workers' compensation claims and judgments.

**NOTE C - DEPOSITS**

The Department's deposits consist of cash on hand, cash held at financial institutions, and cash maintained by the County. As of June 30, 2024, the carrying value of the Department's cash deposits amounted to approximately \$20,793,000 and the balances carried by the banks were approximately \$21,361,000. The County Director of Finance has arranged for all of the Department's deposits at June 30, 2024 to be collateralized with securities held by the pledging financial institution in the County's name.

**Department of Water  
 County of Kauai  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2024**

**NOTE D - INVESTMENTS**

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

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

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

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

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

The following table presents the fair value of the Department's investments by level of input as of June 30, 2024:

	Assets at Fair Value at June 30, 2024			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 996,650	\$ 996,650	\$ --	\$ --
U. S. government agencies	37,297,726	--	37,297,726	--
Municipal bonds	1,257,120	--	1,257,120	--
Money market mutual funds	664,943	664,943	--	--
	<u>\$ 40,216,439</u>	<u>\$ 1,661,593</u>	<u>\$ 38,554,846</u>	<u>\$ --</u>
Investments measured at amortized cost				
Certificates of deposit	<u>3,742,000</u>			
Total investments	<u>\$ 43,958,439</u>			

**Department of Water  
 County of Kauai  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2024**

**NOTE D - INVESTMENTS (Continued)**

The following table represents the Department's investments by maturity as of June 30, 2024:

	Investment Maturities (In Years)		
	Reported Value	Less Than 1	1 - 5
U. S. Treasury obligations	\$ 996,650	\$ 996,650	\$ --
U. S. government agencies	37,297,726	7,190,990	30,106,736
Municipal bonds	1,257,120	560,164	696,956
Certificates of deposit	<u>3,742,000</u>	<u>2,995,000</u>	<u>747,000</u>
	\$ 43,293,496	\$ <u>11,742,804</u>	\$ <u>31,550,692</u>
Money market mutual funds	<u>664,943</u>		
Total investments	\$ <u>43,958,439</u>		

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

**Credit Risk** - State law limits investments to the top rating issued by nationally recognized statistical rating organizations or investments that have the full faith and credit of the United States pledged for the payment of principal and interest. The Department has no investment policy that would further limit its investment choices. As of June 30, 2024, with the exception of the Department's investment in certain fixed income and money market funds which were not rated, all of the Department's investments were rated AA or greater.

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

**Concentration of Credit Risk** - The Department places no limits on the amount which may be invested in any one issuer. As of June 30, 2024, more than 5% of the Department's investments are held in the following: Federal Home Loan Bank (60%), Federal Farm Credit Bank (17%), and Federal Home Loan Mortgage Company (14%).

**Department of Water  
 County of Kauai  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2024**

**NOTE E - CAPITAL ASSETS**

Capital asset activity during the fiscal year ended June 30, 2024 were as follows:

	Balance June 30, 2023	Additions	Reductions/ Transfers	Balance June 30, 2024
<b>Capital assets not being depreciated</b>				
Land and land rights	\$ 1,307,422	\$ --	\$ --	\$ 1,307,422
Construction in progress	8,489,135	11,004,205	(666,761)	18,826,579
Total capital assets not being depreciated	<u>9,796,557</u>	<u>11,004,205</u>	<u>(666,761)</u>	<u>20,134,001</u>
<b>Capital assets being depreciated</b>				
Utility plant	339,663,936	472,224	(32,249)	340,103,911
General plant	25,440,887	651,692	(658,175)	25,434,404
Intangible assets	2,224,382	45,555	--	2,269,937
	<u>367,329,205</u>	<u>1,169,471</u>	<u>(690,424)</u>	<u>367,808,252</u>
<b>Less accumulated depreciation and amortization</b>				
Utility plant	(122,743,645)	(5,664,821)	32,249	(128,376,217)
General plant	(11,523,413)	(925,847)	658,175	(11,791,085)
Intangible assets	(1,963,763)	(62,316)	--	(2,026,079)
	<u>(136,230,821)</u>	<u>(6,652,984)</u>	<u>690,424</u>	<u>(142,193,381)</u>
Total capital assets being depreciated	<u>231,098,384</u>	<u>(5,483,513)</u>	<u>--</u>	<u>225,614,871</u>
<b>Lease assets</b>				
Equipment	--	61,120	--	61,120
Less accumulated amortization	--	--	--	--
Total lease assets	<u>--</u>	<u>61,120</u>	<u>--</u>	<u>61,120</u>
<b>Subscription assets</b>				
Subscription assets	--	600,499	--	600,499
Less accumulated amortization	--	(49,580)	--	(49,580)
Total subscription assets	<u>--</u>	<u>550,919</u>	<u>--</u>	<u>550,919</u>
Total capital assets, net	<u>\$ 240,894,941</u>	<u>\$ 6,132,731</u>	<u>\$ (666,761)</u>	<u>\$ 246,360,911</u>

**Department of Water  
 County of Kauai  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2024**

**NOTE F - LONG-TERM DEBT**

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

As of June 30, 2024 bonds payable consisted of the following:

General Obligation Bonds - County Series 2021A, due in annual installments of \$386,000 to \$406,000 through August 2025, interest payments semi-annually from 3% to 5%.	\$ 792,000
General Obligation Bonds - County Series 2021B, due in annual installments of \$234,400 to \$250,000 through August 2029, interest payments semi-annually from 3% to 5%.	1,447,200
Build America Bonds - County Series 2010A, due in annual installments of \$2,870,000 to \$4,470,000 through August 2033, interest payments semi-annually from 4.76% to 5.76%.	<u>35,455,000</u>
	<u>37,694,200</u>
Premium on bond issuance	<u>71,734</u>
	<u>\$ 37,765,934</u>

The approximate annual debt service requirements to maturity as of June 30, 2024 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2025	\$ 3,490,000	\$ 1,949,000	\$ 5,439,000
2026	3,667,000	1,775,000	5,442,000
2027	3,429,000	1,596,000	5,025,000
2028	3,612,000	1,414,000	5,026,000
2029	3,806,000	1,218,000	5,024,000
2030 - 2034	<u>19,690,000</u>	<u>2,727,000</u>	<u>22,417,000</u>
Total	<u>\$ 37,694,000</u>	<u>\$ 10,679,000</u>	<u>\$ 48,373,000</u>

In previous years, the County and the Department defeased certain general obligation bonds by placing the proceeds of new bonds in an escrow account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Department's financial statements. As of June 30, 2024, \$5,439,364 of bonds outstanding are considered defeased.

**Department of Water  
 County of Kauai  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2024**

**NOTE F - LONG-TERM DEBT (Continued)**

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

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

As of June 30, 2024 loans payable consisted of the following:

State Revolving Fund ("SRF") Loan - Stable 1.0 MG Tank, last installment March 2029. Interest rate - 0.26%. Semi-annual loan fee rate - 1.625%. Date issued - March 15, 2009. Original amount - \$7,274,998.	\$ 1,940,602
SRF Loan - Poipu Road 16-inch Main Replacement, last installment January 2027. Interest rate - 0.16%. Semi-annual loan fee rate - 1.625%. Date issued - January 15, 2007. Original amount - \$5,158,886.	805,492
SRF Loan - Wailua Houselots Main Replacement, last installment April 2033. Interest rate - 0.5%. Semi-annual loan fee rate - 0.5%. Date issued - April 15, 2013. Original amount - \$4,463,084.	1,777,375
SRF Loan - Kaumualii Highway 12-inch Main Replacement, last installment August 2029. Interest rate - 0.32%. Semi-annual loan fee rate 1.625%. Date issued - August 15, 2009. Original amount - \$3,989,537.	1,153,800
SRF Loan - Kapilimoa 0.5 MG Tank, last installment January 2030. Interest rate - 0.42%. Semi-annual loan fee rate - 1.625%. Date issued - January 15, 2010. Original amount - \$3,793,779.	1,222,258
SRF Loan - Lihue Baseyard Improvements for the Department of Water, last installment December 2034. Interest rate - 0.5%. Semi-annual loan fee rate - 0.5%. Date issued - December 15, 2014. Original amount - \$4,000,000.	<u>1,095,889</u>
Subtotal	<u>\$ 7,995,416</u>

**Department of Water  
 County of Kauai  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2024**

**NOTE F - LONG-TERM DEBT (Continued)**

Subtotal carried forward	\$ 7,995,416
SRF Loan - Waha, Wawae and Niho Roads Main Replacement, last installment August 2029. Interest rate - 0.32%. Semi-annual loan fee rate - 1.625%. Date issued - August 15, 2009. Original amount - \$1,936,018.	562,145
SRF Loan - 16-inch Waterline Replacement Along Kuhio Highway, Leho Drive to North Papaloa Road, last installment February 2026. Interest rate - 0.16%. Semi-annual loan fee rate - 1.625%. Date issued - August 15, 2005. Original amount - \$2,305,093.	245,999
SRF Loan - Rehabilitate Lihue Steel Tanks 1 & 2, last installment January 2025. Interest rate - 0.46%. Semi-annual loan fee rate - 1.625%. Date issued - January 15, 2005. Original amount - \$1,243,017.	69,010
SRF Loan - Ornellas 0.2 MG Tank, last installment March 2025. Interest rate - 0.58%. Semi-annual loan fee rate - 1.625%. Date issued - January 15, 2005. Original amount \$809,398.	44,367
SRF Loan - Kalaheo Water Systems Improvements, last installment January 2045. Interest rate - 0.65%. Semi-annual loan fee rate - 0.75%. Date issued - January 15, 2023. Original amount - \$13,000,000.	376,082
SRF Loan - Kauai DOW Pro-Fi SFY 2024, last installment October 2043. Interest rate - 0.25%. Semi-annual loan fee rate - 0.75%. Date issued - April 15, 2024. Original amount - \$5,000,000.	<u>3,341,500</u>
	<u>\$ 12,634,519</u>

The Department recognized \$5,193,714 of SRF loan principal forgiveness as capital contributions in the statement of revenues, expenses and changes in net position for the fiscal year ended June 30, 2024.



**Department of Water  
 County of Kauai  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2024**

**NOTE F - LONG-TERM DEBT (Continued)**

The approximate annual debt service requirements to maturity as of June 30, 2024 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2025	\$ 1,844,000	\$ 308,000	\$ 2,152,000
2026	1,745,000	254,000	1,999,000
2027	1,637,000	203,000	1,840,000
2028	1,375,000	156,000	1,531,000
2029	1,382,000	212,000	1,594,000
2030-2034	2,600,000	286,000	2,886,000
2035-2039	1,045,000	141,000	1,186,000
2040-2044	983,000	48,000	1,031,000
2045	24,000	--	24,000
	<u>\$ 12,635,000</u>	<u>\$ 1,608,000</u>	<u>\$ 14,243,000</u>

**NOTE G - POLLUTION REMEDIATION OBLIGATION**

The Department recognized a pollution remediation obligation to address the existence of polychlorinated biphenyls ("PCBs") and lead-containing and lead-based paint identified at one of the Department's water tanks. The location of the tank is out of the public access and has been taken out of service while the Department addresses this issue in coordination with the State Department of Health and U.S. Environmental Protection Agency. Management's estimate of the liability is based on amounts specified in executed contracts for remediation services that include both pre-cleanup and cleanup activities. Unforeseen events and circumstances could alter the estimate of the costs associated with these remediation services, which could change management's estimate of the pollution remediation obligation in the future. As of June 30, 2024, the estimated pollution remediation obligation was \$611,957.

**NOTE H - LEASE LIABILITIES**

The Department leases office equipment under a noncancellable contract that expires in June 2028. The terms also include variable payments based on the usage of the equipment, which are not included in measurement of the lease liability.

**Department of Water  
 County of Kauai  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2024**

**NOTE H - LEASE LIABILITIES (Continued)**

Principal and interest requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2025	\$ 13,345	\$ 1,559	\$ 14,904
2026	15,001	1,258	16,259
2027	15,468	791	16,259
2028	<u>17,306</u>	<u>308</u>	<u>17,614</u>
	<u>\$ 61,120</u>	<u>\$ 3,916</u>	<u>\$ 65,036</u>

**NOTE I - SUBSCRIPTION LIABILITIES**

The Department has entered into SBITAs related to cloud-based applications used for various administrative and operational purposes. The subscription terms expire on various dates through June 2028.

Principal and interest requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2025	\$ 151,732	\$ 13,969	\$ 165,701
2026	149,536	9,178	158,714
2027	110,329	5,296	115,625
2028	<u>112,235</u>	<u>1,835</u>	<u>114,070</u>
	<u>\$ 523,832</u>	<u>\$ 30,278</u>	<u>\$ 554,110</u>

**NOTE J - CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the fiscal year ended June 30, 2024 were as follows:

	Balance June 30, 2023	Additions	Reductions	Balance June 30, 2024	Current Portion
General obligation bonds payable	\$ 41,025,800	\$ --	\$ (3,331,600)	\$ 37,694,200	\$ 3,490,400
Add premiums on bond issuance	<u>117,649</u>	<u>--</u>	<u>(45,915)</u>	<u>71,734</u>	<u>--</u>
Total bonds payable	41,143,449	--	(3,377,515)	37,765,934	3,490,400
Loans payable	10,685,306	3,717,581	(1,768,368)	12,634,519	1,844,274
Accrued compensated absences	1,380,798	843,367	(563,702)	1,660,463	682,149
Subscription liability	--	600,499	(76,667)	523,832	151,732
Lease liability	--	61,120	--	61,120	--
Pollution remediation obligation	<u>1,270,458</u>	<u>--</u>	<u>(658,501)</u>	<u>611,957</u>	<u>611,957</u>
	<u>\$ 54,480,011</u>	<u>\$ 5,222,567</u>	<u>\$ (6,444,753)</u>	<u>\$ 53,257,825</u>	<u>\$ 6,780,512</u>

**Department of Water  
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**NOTE K - NET POSITION**

As of June 30, 2024, net position consisted of the following:

Net investment in capital assets	
Capital assets, net	\$ 246,360,911
Less: Long-term debt, net	(50,400,453)
Less: Accounts and contracts payable attributable to capital assets	(2,859,089)
Unspent debt proceeds	12,542,169
Deferred gain on refunding	<u>(72,865)</u>
	<u>205,570,673</u>
Restricted for capital activity, debt service, and reserved funds	
Cash	7,957,845
Investments	8,567,773
Grants and subsidies	1,642,872
Less: Unspent debt proceeds	<u>(12,542,169)</u>
	<u>5,626,321</u>
Unrestricted	<u>18,810,294</u>
	<u>\$ 230,007,288</u>

**NOTE L - EMPLOYEES' RETIREMENT SYSTEM**

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

*Benefits Provided* - The ERS provides retirement, disability and death benefits that are covered by the provisions of the noncontributory, contributory and hybrid retirement membership classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier multiplied by the average final compensation multiplied by years of credited service. Average final compensation is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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**NOTE L - EMPLOYEES' RETIREMENT SYSTEM (Continued)**

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- *Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

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**NOTE L - EMPLOYEES' RETIREMENT SYSTEM (Continued)**

Contributory Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- *Death Benefits* - For service-connected deaths, the designated beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

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

Contributory Class for Members Hired After June 30, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* - Disability and death benefits for contributory class members hired after June 30, 2012 are generally the same as those for contributory class members hired June 30, 2012 and prior.

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**NOTE L - EMPLOYEES' RETIREMENT SYSTEM (Continued)**

Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- *Death Benefits* - For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

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

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

**Department of Water  
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**NOTE L - EMPLOYEES' RETIREMENT SYSTEM (Continued)**

- *Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

*Contributions* - Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every three years. Employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The Department's contribution rate for the year ended June 30, 2024 was 24%. Contributions to the pension plan from the Department were \$2,347,856 for the year ended June 30, 2024.

The employer is required to make all contributions for members in the noncontributory plan. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2024, the Department reported a liability of \$17,335,567, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participants, actuarially determined. At June 30, 2023, the Department's proportion was .15%, which was a decrease of .02% from its proportion measured as of June 30, 2022.

There were no changes to the actuarial assumptions or benefit terms that affected the measurement of the total pension liability since the prior measurement date, June 30, 2022. There were no changes between the measurement date, June 30, 2023, and the reporting date, June 30, 2024, that are expected to have a significant effect on the proportionate share of the net pension liability.

**Department of Water  
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 June 30, 2024**

**NOTE L - EMPLOYEES' RETIREMENT SYSTEM (Continued)**

For the year ended June 30, 2024, the Department recognized pension expense of approximately \$1,524,000. At June 30, 2024, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 341,561	\$ 177,912
Changes of assumptions	5,708	155,880
Net difference between projected and actual earnings on pension plan investments	188,687	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,743,115	3,720,221
Employer contributions subsequent to the measurement date	2,347,856	--
	\$ 5,626,927	\$ 4,054,013

The Department reported \$2,347,856 as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2024 will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Net Deferred (Inflows)
2025	\$ (665,430)
2026	(755,549)
2027	783,192
2028	(86,824)
2029	(50,331)
	\$ (774,942)



**Department of Water  
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**NOTE L - EMPLOYEES' RETIREMENT SYSTEM (Continued)**

*Actuarial assumption* - The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Investment rate of return, including inflation	7.00%
Projected salary increases, including inflation	3.75% - 6.75%

Mortality rates used in the actuarial valuation as of June 30, 2023 were based on the following:

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

Healthy retirees: The 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by the long-term rates of scale MP from the year 2022 and with multiplier and setbacks based on plan and group experience.

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

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period ended June 30, 2021.

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

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**NOTE L - EMPLOYEES' RETIREMENT SYSTEM (Continued)**

Classes	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return*
<b>Broad growth</b>			
Private equity	13.5%	10.0%	7.4%
Global equity	20.0%	7.9%	5.3%
Low volatility equity	4.0%	7.1%	4.5%
Global options	4.0%	5.8%	3.2%
Credit	6.0%	8.0%	5.4%
Core real estate	6.0%	6.0%	3.4%
Non-core real estate	4.5%	7.9%	5.3%
Timber/agriculture/infrastructure	5.0%	7.2%	4.6%
<b>Diversifying Strategies</b>			
TIPs	2.0%	3.2%	0.6%
Global macro	4.0%	6.0%	3.4%
Reinsurance	4.0%	7.0%	4.4%
Alternative risk premia	8.0%	5.0%	2.4%
Long treasuries	5.0%	3.8%	1.2%
Intermediate government	4.0%	3.2%	0.6%
Systematic trend following	10.0%	4.7%	2.1%
	100.0%		

\* Uses an expected inflation rate of 2.6%

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

**Department of Water  
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**NOTE L - EMPLOYEES' RETIREMENT SYSTEM (Continued)**

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Proportionate share of the net pension liability	\$ <u>23,060,287</u>	\$ <u>17,335,567</u>	\$ <u>12,594,513</u>

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

*Payable to the Pension Plan* - As of June 30, 2024, the amounts payable to the ERS totaled \$626,568, which consists of excess pension costs required by the HRS for fiscal year 2024 and estimated pension costs related to the COVID-19 temporary hazard pay liability described further in Note M.

**NOTE M - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS**

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

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

**Department of Water  
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**NOTE M - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)**

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than 10 years of service, the Department makes no contributions. For those retiring with at least 10 years of service but fewer than 15 years of service, the Department pays 50% of the base monthly contribution. For employees retiring with at least 15 years of service but fewer than 25 years of service, the Department pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the Department pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

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

*Employees Covered by Benefit Terms* - At July 1, 2023, the following number of plan members were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	66
Inactive employees entitled but not yet receiving benefits	8
Active employees	83
	157
	157

*Contributions* - Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department were \$1,074,000 for the fiscal year ended June 30, 2024. The employer is required to make all contributions for members.

***Net OPEB Liability***

The Department's net OPEB liability was measured as of July 1, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. As of June 30, 2024, the Department reported a net OPEB liability of \$3,650,143.

**Department of Water  
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**NOTE M - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)**

*Actuarial Assumptions* - The total OPEB liability in the July 1, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2023
Actuarial cost method	Entry age normal
Discount rate	7.00%
Inflation	2.50%
Salary increases	3.75% to 6.75%, including inflation
Demographic assumptions	Based on the 2022 actuarial experience study as conducted June 30, 2021 for the ERS.
Mortality	System-specific mortality tables utilizing ultimate scale MP2021 to project generational mortality improvement.
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution ("BMC"). Healthcare participation rates of 25%, 65% and 90% for retirees that receive 0%, 50% or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B.
Healthcare cost trend rates	
PPO*	Initial rate of 6.30%, declining to a rate of 4.25% after 21 years
HMO**	Initial rate of 6.30%, declining to a rate of 4.25% after 21 years
Part B & base monthly contribution	Initial rate of 5.00%, declining to a rate of 4.25% after 21 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

\*Blended rates for medical and prescription drug.

\*\*Includes prescription drug assumptions

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**NOTE M - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)**

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

Strategic Allocation	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	27.50%	7.60%
Private equity	15.00%	10.00%
Real assets	12.00%	4.30%
Private credit	10.00%	7.80%
Trend following	10.00%	2.40%
Long treasuries	5.50%	2.40%
Reinsurance	5.00%	3.40%
Alternative risk premia	5.00%	3.30%
TIPS	5.00%	2.00%
U.S. microcap	3.00%	8.70%
Tail risk/ Long volatility	2.00%	-1.10%
Global options	0.00%	4.90%
	100.00%	

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

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**NOTE M - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)**

***Changes in the Net OPEB Liability***

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
<b>Balance at June 30, 2023</b>	\$ <u>18,530,589</u>	\$ <u>14,794,926</u>	\$ <u>3,735,663</u>
<b>Changes for the year:</b>			
Service cost	364,655	--	364,655
Interest on the total OPEB liability	1,287,176	--	1,287,176
Difference between expected and actual experience	18,693	--	18,693
Changes of assumptions	--	--	--
Contributions - employer	--	1,058,000	(1,058,000)
Net investment income	--	688,478	(688,478)
Benefit payments	(649,372)	(649,372)	--
Administrative expense	--	(993)	993
Other	--	10,559	(10,559)
<b>Net changes</b>	<u>1,021,152</u>	<u>1,106,672</u>	<u>(85,520)</u>
<b>Balance at June 30, 2024</b>	\$ <u>19,551,741</u>	\$ <u>15,901,598</u>	\$ <u>3,650,143</u>

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ <u>6,601,631</u>	\$ <u>3,650,143</u>	\$ <u>1,300,872</u>

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**NOTE M - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)**

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

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$ <u>1,038,878</u>	\$ <u>3,650,143</u>	\$ <u>6,998,737</u>

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

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

For the fiscal year ended June 30, 2024, the Department recognized OPEB expense of approximately \$124,000. At June 30, 2024, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,182	\$ 1,829,523
Changes of assumptions	58,845	523,879
Net difference between projected and actual earnings on OPEB plan investments	309,946	--
Employer contributions subsequent to the measurement date	<u>1,074,000</u>	<u>--</u>
	\$ <u>1,467,973</u>	\$ <u>2,353,402</u>



**Department of Water  
 County of Kauai  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2024**

**NOTE M - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)**

The Department reported \$1,074,000 as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date which will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	Net Deferred Inflows
2025	\$ (518,492)
2026	(640,758)
2027	(218,597)
2028	(296,404)
2029	(288,367)
Thereafter	3,189
	\$ (1,959,429)

**NOTE N - DEFERRED COMPENSATION PLAN**

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

**NOTE O - COMMITMENTS AND CONTINGENCIES**

**COVID-19 Temporary Hazard Pay**

In October 2024, temporary hazard pay (THP) settlements between the County and United Public Workers (UPW) for Bargaining Unit 01 and Hawaii Government Employees Association (HGEA) for Bargaining Units 02, 03, 04, 13, 14, and 15 were reached. The THP covers affected employees who worked during the COVID-19 pandemic, excluding leave of absences and telework or remote work arrangements. Management estimates the Department's liability for the THP to range from \$1,657,000 to \$1,800,000. The Department accrued an estimated liability of \$1,657,000 as of June 30, 2024.

**Department of Water  
County of Kauai  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2024**

**NOTE O - COMMITMENTS AND CONTINGENCIES (Continued)**

**Sick Leave**

Accumulated sick leave as of June 30, 2024 was approximately \$2,097,000. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. As a result, no liability for sick pay is recorded in the accompanying financial statements. However, a public employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS.

**Workers' Compensation Insurance**

Claims are reported to and managed by the County. Prior to July 1, 2001, the County retained all of its workers' compensation risk. Beginning July 1, 2001, the County purchased insurance with a \$500,000 deductible. The current deductible is \$550,000. The Department provides reserves for claims not covered by insurance that in the opinion of management will result in probable judgment against the Department. These reserves include an estimate of claims that have been incurred but not reported ("IBNR"). Claim liabilities, including IBNR, are based on the estimated ultimate cost of settling the claims. Claims liabilities are estimated by a case-by-case review of all claims and the application of historical experience to outstanding claims. As of June 30, 2024, the workers' compensation liability amount to approximately \$73,000 and is recorded in accounts payable and accrued liabilities in the statement of net position.

**Safe Drinking Water Act**

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

**Water Treatment and Delivery Commitment**

On February 19, 2004, the Department entered into a Water Treatment and Delivery Agreement ("Agreement") with an unrelated third-party developer. The Agreement requires the developer to build, operate, and maintain a surface water treatment plant ("SWTP") with a capacity of 3.0 million gallons per day ("MGD"). The Department is required to purchase, at a minimum, 2.0 MGD and also to provide the developer a credit towards its facility reserve charge. The term of the Agreement extended through February 2023 and is currently on a month-to-month arrangement. The Agreement also provides the Department with the option of accepting the dedication of the SWTP at no cost after the reimbursement date, as defined. Expenses incurred under this Agreement totaled \$1,826,000 for the fiscal year ended June 30, 2024.

**Department of Water  
County of Kauai  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2024**

**NOTE O - COMMITMENTS AND CONTINGENCIES (Continued)**

**Other Legal Matters**

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

**Other**

Other commitments, primarily for utility plant construction, approximated \$60,495,000 as of June 30, 2024.

**NOTE P - RELATED PARTY TRANSACTIONS**

The Department charges the County for fire protection services (hydrant use) at agreed-to-rates that approximate the cost for such services. The County provides certain services to the Department and charges the Department for these services at an amount equal to the charge for fire protection services. The amount charged totaled \$2,228,166 for the fiscal year ended June 30, 2024.

The County initially pays for the Department's payroll and payroll related expenses and is subsequently reimbursed by the Department. As of June 30, 2024, the amount due to the County was \$4,918,725.

## REQUIRED SUPPLEMENTARY INFORMATION

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

<b>Measurement Period Ended</b>	<b>Proportion of the Net Pension Liability</b>	<b>Proportionate Share of the Net Pension Liability</b>	<b>Covered Payroll</b>	<b>Proportionate Share of the Net Pension Liability as a %age of Covered Payroll</b>	<b>Plan Fiduciary Net Position as a %age of the Total Pension Liability</b>
June 30, 2023	0.15%	\$ 17,335,567	\$ 6,301,000	275.12%	61.91%
June 30, 2022	0.17%	\$ 17,948,894	\$ 6,332,000	283.46%	62.76%
June 30, 2021	0.13%	\$ 13,195,469	\$ 6,382,000	206.76%	64.25%
June 30, 2020	0.17%	\$ 20,785,838	\$ 5,966,000	348.40%	53.18%
June 30, 2019	0.16%	\$ 21,971,493	\$ 5,840,000	376.22%	54.87%
June 30, 2018	0.12%	\$ 16,156,668	\$ 5,633,000	286.82%	55.48%
June 30, 2017	0.12%	\$ 15,423,518	\$ 5,515,000	279.66%	54.80%
June 30, 2016	0.13%	\$ 16,921,133	\$ 5,110,000	331.14%	51.28%
June 30, 2015	0.13%	\$ 11,310,002	\$ 4,836,000	233.87%	62.42%
June 30, 2014	0.12%	\$ 9,317,991	\$ 4,645,000	200.60%	63.92%

See accompanying notes to required supplementary information.

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

<b>Fiscal Year Ended</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to Statutorily Required Contributions</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as a %age of Covered Payroll</b>
June 30, 2024	\$ 2,348,000	\$ 2,348,000	\$ --	\$ 7,172,000	32.74%
June 30, 2023	\$ 1,873,000	\$ 1,873,000	\$ --	\$ 6,301,000	29.73%
June 30, 2022	\$ 1,792,000	\$ 1,792,000	\$ --	\$ 6,332,000	28.30%
June 30, 2021	\$ 1,532,000	\$ 1,532,000	\$ --	\$ 6,382,000	24.01%
June 30, 2020	\$ 1,325,000	\$ 1,325,000	\$ --	\$ 5,966,000	22.21%
June 30, 2019	\$ 1,109,000	\$ 1,109,000	\$ --	\$ 5,840,000	18.99%
June 30, 2018	\$ 1,016,000	\$ 1,016,000	\$ --	\$ 5,633,000	18.04%
June 30, 2017	\$ 938,000	\$ 938,000	\$ --	\$ 5,515,000	17.01%
June 30, 2016	\$ 911,000	\$ 911,000	\$ --	\$ 5,110,000	17.83%
June 30, 2015	\$ 798,000	\$ 798,000	\$ --	\$ 4,836,000	16.50%

See accompanying notes to required supplementary information.

**Department of Water  
County of Kauai  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
REQUIRED BY GASB STATEMENT NO. 68  
Fiscal Year Ended June 30, 2024**

**NOTE A - CHANGES OF ASSUMPTIONS**

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

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

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

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

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

	2024	2023	2022	2021	2020	2019	2018
<b>Total OPEB liability</b>							
Service cost	\$ 364,655	\$ 438,674	\$ 432,883	\$ 426,197	\$ 406,353	\$ 380,070	\$ 380,075
Interest on the total OPEB liability	1,287,176	1,349,585	1,302,575	1,307,741	1,221,753	1,144,135	1,073,630
Difference between expected and actual experience	18,693	(1,388,028)	(544,543)	(1,183,289)	33,498	(135,272)	--
Changes of assumptions or other inputs	--	(668,033)	--	(109,324)	83,252	237,370	--
Benefit payments	(649,372)	(524,110)	(520,381)	(516,535)	(536,228)	(525,000)	(368,000)
Net change in total OPEB liability	1,021,152	(791,912)	670,534	(75,210)	1,208,628	1,101,303	1,085,705
Total OPEB liability - Beginning	18,530,589	19,322,501	18,651,967	18,727,177	17,518,549	16,417,246	15,331,541
Total OPEB liability - Ending	\$ 19,551,741	\$ 18,530,589	\$ 19,322,501	\$ 18,651,967	\$ 18,727,177	\$ 17,518,549	\$ 16,417,246
<b>Plan fiduciary net position</b>							
Contributions - employer	\$ 1,058,000	\$ 1,143,000	\$ 1,077,000	\$ 1,041,000	\$ 1,011,000	\$ 948,000	\$ 1,287,000
Net investment income	688,478	(283,267)	2,973,978	199,294	399,132	588,700	654,929
Benefit payments	(649,372)	(524,110)	(520,381)	(516,535)	(536,228)	(525,000)	(368,000)
Other OPEB administrative expense	(993)	(1,242)	(1,541)	(1,598)	(2,874)	(1,803)	(1,485)
Other	10,559	4,335	1,919	1,781	271,018	--	8,474
Net change in plan fiduciary net position	1,106,672	338,716	3,530,975	723,942	1,142,048	1,009,897	1,580,918
Plan fiduciary net position - Beginning	14,794,926	14,456,210	10,925,235	10,201,293	9,059,245	8,049,348	6,468,430
Plan fiduciary net position - Ending	\$ 15,901,598	\$ 14,794,926	\$ 14,456,210	\$ 10,925,235	\$ 10,201,293	\$ 9,059,245	\$ 8,049,348
Net OPEB liability - ending	\$ 3,650,143	\$ 3,735,663	\$ 4,866,291	\$ 7,726,732	\$ 8,525,884	\$ 8,459,304	\$ 8,367,898
Plan fiduciary net position as a percentage of the total OPEB liability	81.33%	79.84%	74.82%	58.57%	54.47%	51.71%	49.03%
Covered-employee payroll	\$ 6,301,000	\$ 6,332,000	\$ 6,382,000	\$ 5,966,000	\$ 5,840,000	\$ 5,787,000	\$ 5,700,000
Net OPEB Liability as a Percentage of Covered-employee payroll	57.93%	59.00%	76.25%	129.51%	145.99%	146.18%	146.81%

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

See accompanying notes to required supplementary information.



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

<b>Fiscal Year Ended</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in Relation to the Actuarially Determined Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered- Employee Payroll</b>	<b>Contributions as a %age of Covered- Employee Payroll</b>
June 30, 2024	\$ 1,074,000	\$ 1,074,000	\$ --	\$ 7,172,000	14.97%
June 30, 2023	\$ 1,058,000	\$ 1,058,000	\$ --	\$ 6,301,000	16.79%
June 30, 2022	\$ 1,143,000	\$ 1,143,000	\$ --	\$ 6,332,000	18.05%
June 30, 2021	\$ 1,077,000	\$ 1,077,000	\$ --	\$ 6,382,000	16.88%
June 30, 2020	\$ 1,041,000	\$ 1,041,000	\$ --	\$ 5,966,000	17.45%
June 30, 2019	\$ 1,011,000	\$ 1,011,000	\$ --	\$ 5,840,000	17.31%
June 30, 2018	\$ 1,002,000	\$ 948,000	\$ 54,000	\$ 5,787,000	16.38%
June 30, 2017	\$ 968,000	\$ 968,000	\$ --	\$ 5,700,000	16.98%
June 30, 2016	\$ 914,000	\$ 883,000	\$ 31,000	\$ 5,269,000	16.76%
June 30, 2015	\$ 884,000	\$ 885,000	\$ (1,000)	\$ 5,068,000	17.46%

See accompanying notes to required supplementary information.

**Department of Water  
 County of Kauai  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 REQUIRED BY GASB STATEMENT NO. 75  
 Fiscal Year Ended June 30, 2024**

**NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS**

The actuarially determined annual required contributions for the fiscal year ended June 30, 2024 was developed in the July 1, 2021 valuation. The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2024:

Actuarial valuation date	July 1, 2021
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	14.3 as of June 30, 2024
Asset valuation method	4-year smoothed market
Inflation rate	2.50%
Discount rate	7.00%
Payroll growth	3.50%
Salary increases	3.50% to 7.00% including inflation
Demographic assumptions	Based on the experience study covering the five year period ending June 30, 2018 as conducted for the ERS
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the base monthly contribution, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO	Initial rate of 7.25%, declining to a rate of 4.7% after 12 years
HMO	Initial rate of 7.25%, declining to a rate of 4.7% after 12 years
Part B	Initial rate of 5%; declining to a rate of 4.7% after 9 years
Dental	4%
Vision	2.5%
Life Insurance	0%

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

## **SUPPLEMENTARY INFORMATION**

**Department of Water**  
**County of Kauai**  
**SCHEDULE I - SCHEDULE OF UTILITY PLANT-IN-SERVICE**  
**Fiscal Year Ended June 30, 2024**

	Balance July 1, 2023	Additions	Reductions/ Transfers	Balance June 30, 2024
<b>Cost basis</b>				
Land and land rights				
Source	\$ 837,879	\$ --	\$ --	\$ 837,879
Pumping	156	--	--	156
Water treatment	150	--	--	150
Transmission and distribution	469,237	--	--	469,237
Total land and land rights	<u>1,307,422</u>	<u>--</u>	<u>--</u>	<u>1,307,422</u>
Utility plant				
Source	12,317,698	--	--	12,317,698
Pumping	49,498,080	--	--	49,498,080
Water treatment	10,415,202	--	--	10,415,202
Transmission and distribution	267,432,956	472,224	(32,249)	267,872,931
Total utility plant capital assets	<u>339,663,936</u>	<u>472,224</u>	<u>(32,249)</u>	<u>340,103,911</u>
General Plant	25,440,887	651,692	(658,175)	25,434,404
Intangible assets				
Easements	35,722	--	--	35,722
Software	2,188,660	45,555	--	2,234,215
Total intangible assets	<u>2,224,382</u>	<u>45,555</u>	<u>--</u>	<u>2,269,937</u>
Lease assets	--	61,120	--	61,120
Subscription assets	--	600,499	--	600,499
	<u>\$ 368,636,627</u>	<u>\$ 1,831,090</u>	<u>\$ (690,424)</u>	<u>\$ 369,777,293</u>
	Balance July 1, 2023	Additions	Reductions/ Transfers	Balance June 30, 2024
<b>Accumulated depreciation and amortization</b>				
Utility plant				
Source	\$ 6,518,150	\$ 260,761	\$ --	\$ 6,778,911
Pumping	32,190,050	1,111,705	--	33,301,755
Water treatment	9,435,935	47,719	--	9,483,654
Transmission and distribution	74,599,510	4,244,636	(32,249)	78,811,897
Total utility plant accumulated depreciation	<u>122,743,645</u>	<u>5,664,821</u>	<u>(32,249)</u>	<u>128,376,217</u>
General Plant	11,523,413	925,847	(658,175)	11,791,085
Intangible assets	1,963,763	62,316	--	2,026,079
Lease assets	--	--	--	--
Subscription assets	--	49,580	--	49,580
	<u>\$ 136,230,821</u>	<u>\$ 6,702,564</u>	<u>\$ (690,424)</u>	<u>\$ 142,242,961</u>

**Department of Water**  
**County of Kauai**  
**SCHEDULE II - SCHEDULE OF SELECTIVE ACCOUNT CLASSIFICATIONS**  
**As of and for the Five Fiscal Years Ended June 30, 2024**  
**(All Dollars in Thousands)**

	2024	2023	2022	2021	2020
<b>Statements of Net Position</b>					
Utility plant in service	\$ 369,777	\$ 368,637	\$ 363,666	\$ 349,460	\$ 347,015
Net Position					
Net investment in capital assets	\$ 205,571	\$ 196,425	\$ 192,553	\$ 193,552	\$ 163,824
Restricted for capital activity and debt service	5,626	5,205	2,623	3,575	2,050
Unrestricted	18,810	19,196	27,277	23,447	32,387
	<u>\$ 230,007</u>	<u>\$ 220,826</u>	<u>\$ 222,453</u>	<u>\$ 220,574</u>	<u>\$ 198,261</u>
<b>Statements of Revenues, Expenses and Changes in Net Position</b>					
Resources					
Water Sales	\$ 26,715	\$ 28,255	\$ 28,473	\$ 25,321	\$ 26,672
Other	2,356	2,659	2,407	2,405	2,341
	<u>29,071</u>	<u>30,914</u>	<u>30,880</u>	<u>27,726</u>	<u>29,013</u>
Operating Expenses					
Administrative and general	11,503	8,689	8,102	9,550	10,895
Transmission and distribution	7,715	5,998	4,531	5,342	5,210
Depreciation and amortization	6,703	6,898	7,021	7,110	7,190
Power and pumping	3,389	3,197	3,197	2,904	2,941
Accounting and collection	1,586	1,043	957	1,257	1,151
Other	3,778	3,153	3,453	6,093	3,579
	<u>34,674</u>	<u>28,978</u>	<u>27,261</u>	<u>32,256</u>	<u>30,966</u>
Nonoperating expenses	(256)	(2,654)	(4,467)	(2,775)	(1,384)
Contributions	15,040	4,701	2,727	4,000	3,505
	<u>\$ 9,181</u>	<u>\$ 3,983</u>	<u>\$ 1,879</u>	<u>\$ (3,305)</u>	<u>\$ 168</u>

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Department of Water (the "Department"), a component unit of the County of Kauai as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated February 28, 2025.

**Report on Internal Control Over Financial Reporting**

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

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

*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.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2024-002 to be a significant deficiency.

### **Report on Compliance and Other Matters**

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

### **Department's Response to Findings**

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

### **Purpose of This Report**

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

*N + K CPAs, INC.*

Honolulu, Hawaii  
February 28, 2025



**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 THE UNIFORM GUIDANCE**



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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

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

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

We have audited the Department of Water, County of Kauai's (the "Department") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the fiscal year ended June 30, 2024. The Department's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal year ended June 30, 2024.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200 , *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Department's compliance with the compliance requirements referred to above.

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### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Department's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Department's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Department's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, no such opinion is expressed.

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We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Department as of and for the fiscal year ended June 30, 2024, and have issued our report thereon dated February 28, 2025, which contained an unmodified opinion on those financial statements. Our audit was performed 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 the Uniform Guidance 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*N + K CPAs, INC.*

Honolulu, Hawaii  
February 28, 2025

**Department of Water  
 County of Kauai  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Fiscal Year Ended June 30, 2024**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<b>U.S. Environmental Protection Agency</b>			
Pass-through from the State of Hawaii, Department of Health			
Capitalization Grants for Drinking Water State Revolving Fund			
Kalaheo Water System Improvements		DW434-0012	\$ 3,054,894
Kauai DOW Pro-Fi SFY 2024		KDOW-PF24	<u>4,805,028</u>
Total Capitalization Grants for Drinking Water State Revolving Fund	66.468		<u>7,859,922</u>
Total U.S. Environmental Protection Agency			<u>7,859,922</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ <u>7,859,922</u></b>

The accompanying notes are an integral part of this schedule.

**Department of Water  
County of Kauai  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Fiscal Year Ended June 30, 2024**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activities of the Department under programs of the federal government for the fiscal year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the Department.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Drinking Water State Revolving Fund amounts are awarded by the U. S. Environmental Protection Agency to the State of Hawaii, Department of Health (DOH). The DOH then makes subawards to the Department in the form of loans. Expenditures reported on the Schedule include project expenditures incurred under these loans during the fiscal year ended June 30, 2024.

**NOTE C - INDIRECT COST RATE**

The Department has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**Department of Water  
 County of Kauai  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Fiscal Year Ended June 30, 2024**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<input checked="" type="checkbox"/>	yes	<input type="checkbox"/>	no
Significant deficiency(ies) identified?	<input checked="" type="checkbox"/>	yes	<input type="checkbox"/>	none reported

Noncompliance material to financial statements noted?

	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
Significant deficiency(ies) identified?	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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Identification of major federal programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program</u>
66.468	Capitalization Grants for Drinking Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee?

	<input type="checkbox"/>	yes	<input checked="" type="checkbox"/>	no
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**Department of Water  
County of Kauai  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2024**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<u>Ref No.</u>	Internal Control Findings
<b>2024-001</b>	<b>IT General Control Deficiencies</b>

**Criteria:**

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

**Condition:**

Several IT internal control deficiencies in the areas of logical security, physical security, and change management existed during the fiscal year ended June 30, 2024:

Logical security

- The Department has established policies and procedures to add, change or delete user access to systems. However, the form designed to document the initiation, review and approval of the action is not consistently used.
- Lack of security awareness training for employees.
- Informal patch management process for critical systems.
- Fully implement policies and procedures to remediate critical issues identified during a vulnerability assessment conducted during the fiscal year ended June 30, 2024.

Change management

- Lack of formal change management policies and procedures.

**Cause:**

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

**Department of Water  
County of Kauai  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2024**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref No.      Internal Control Findings**

**2024-001      IT General Control Deficiencies (Continued)**

**Effect:**

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

Logical security

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

Change management

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

**Identification as a Repeat Finding:**

2023-001

**Recommendation:**

We recommend that the Department perform the following:

Logical security

- Enforce established policies and procedures to add, change or delete user access to systems in a timely manner. Consider reevaluating the current standard operating procedures to determine if any revisions are needed.
- Design and implement a formal security awareness training program for employees.
- Appropriately update systems to ensure vendor support and maintenance.
- The Department completed several vulnerability assessments performed by independent contractors and external third-parties as of June 30, 2024. Management should develop a plan to prioritize and address the findings.

Change management

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

**Views of Responsible Officials and Planned Corrective Action:**

See management's Corrective Action Plan on pages 82 to 85.

**Department of Water  
County of Kauai  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Fiscal Year Ended June 30, 2024**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**Ref No.      Internal Control Findings**

**2024-002      Improve Procedures to Identify and Account for Contracts**

**Criteria:**

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

**Condition:**

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

**Cause:**

The Department has not established a centralized contract register to maintain all relevant contracts.

**Effect:**

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

**Identification as a Repeat Finding:**

2023-004

**Recommendation:**

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

**Views of Responsible Officials and Planned Corrective Action:**

See management's Corrective Action Plan on pages 82 to 85.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

## **CORRECTIVE ACTION PLAN**

## DEPARTMENT OF WATER

### COUNTY OF KAUAI

4398 PUA LOKE STREET LIHUE, HAWAII 96766

[WWW.KAUAIWATER.ORG](http://WWW.KAUAIWATER.ORG) (808) 245-5400 BUSINESS (808) 245-5813 FAX

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**JOSEPH E. TAIT**  
MANAGER AND CHIEF ENGINEER

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

February 20, 2025

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

Dear Mr. Chew:

Thank you for the opportunity to provide comments on the *Schedule of Findings* issued in connection with the financial statement audit of Department of Water, County of Kauai (Department) for the fiscal year ended June 30, 2024.

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

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

Sincerely,

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

Joseph E. Tait  
Manager and Chief Engineer

Department of Water, County of Kaua'i  
CORRECTIVE ACTION PLAN  
Fiscal Year Ended June 30, 2024

**Ref.  
No.**

**SCHEDULE OF FINDINGS**

**2024-001 IT General Control Deficiencies**

**Auditor's**

**Recommendation:** The Department should perform the following:

Logical security

- Enforce established policies and procedures to add, change or delete user access to systems in a timely manner. Consider reevaluating the current standard operating procedures to determine if any revisions are needed.
- Design and implement a formal security awareness training program for employees.
- Appropriately update systems to ensure vendor support and maintenance.
- The Department completed several vulnerability assessments performed by independent contractors and external third parties as of June 30, 2024. Management should develop a plan to prioritize and address the findings.

Change management

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

**Corrective  
Action:**

The Department concurs with the auditor's findings and recommendations.

Logical security

- All Sixty-Seven (67) Department-wide Standard Operating Procedures are under review by the Manager & Chief Engineer. Final review will include collaboration with the new Information Technology Manager. Expected completion of revisions is October 2025.
- The development of this new training program is in coordination with the County of Kauai's Department of Human Resources, Department of Finance's Information Technology Division, and Water's Division Management. Expected implementation is June 2025.
- Fiscal Division has spearheaded the critically needed ERP Draft for release to competitive bidding. Final review, prior to release, will include the new Information Technology Manager. Expected RFP release is March 2025.
- Retained contractors and associated federal government organizations have identified a prioritized list of recommended upgrades and improvements. Many of these recommendations have been implemented; however, several remain in progress. This list will be transitioned to the new Information Technology Manager for review and modifications, if any, will be inserted into the current list of recommendations and upgrades. Expected completion is FY25/26.

Department of Water, County of Kaua'i  
CORRECTIVE ACTION PLAN (Continued)  
Fiscal Year Ended June 30, 2024

**Ref.  
No.**

**SCHEDULE OF FINDINGS (Continued)**

**2024-001 IT General Control Deficiencies (Continued)**

**Corrective  
Action:**

Change Management

- The Department is in a continual process of inspecting, documenting, planning, and upgrading hardware and systems where appropriate. The process, through to completion, of a living plan will be a joint effort between all Divisions and led by the new Information Technology Manager reporting to the Manager and Chief Engineer. While policies and procedures such as authorized changes scheduled testing, upgrades installed as needed and identified prior to FY25/26, there is no completion date as this will be an on-going, continuous improvement project.

**End Date:** Various, as provided above.

**Responding  
Person(s):**

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



Department of Water, County of Kaua'i  
CORRECTIVE ACTION PLAN (Continued)  
Fiscal Year Ended June 30, 2024

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

**2024-002            Improve Procedures to Identify and Account for Contracts**

**Auditor's Recommendation:**    The Department should perform the following:

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

**Corrective Action:**                      The Fiscal Division acknowledges this is a repeat audit finding. To address and clear the auditor's finding, the Department will transition to an electronic and paperless contract processing workflow, that will capture records, route for approvals, and ultimately store documents in the cloud for recordkeeping. Additionally, the paperless workflow will provide an audit trail for each step involved in contract processing. Documents stored in the cloud may be accessible only by authorized internal and external parties. Our target go-live deadline is June 30, 2025.

**End Date:**                                  June 30, 2025

**Responding Person(s):**                Renee M. Yadao, Waterworks Controller  
Phone: (808) 245-5422

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

## STATUS REPORT Fiscal Year Ended June 30, 2024

This section contains the current status of prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2023, dated April 3, 2024.

### SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Recommendations</u>	<u>Status</u>
<p><b>2023-001 IT General Control Deficiencies (Pages 67 - 68)</b></p> <p>We recommend that the Department perform the following:</p> <p><u>Logical security</u></p> <ul style="list-style-type: none"><li>• Design and implement a formal process for management to monitor the effectiveness of security procedures to remove or disable access of terminated users to the Department's systems.</li><li>• Reevaluate the sufficiency of the Department's password security policies and reconfigure systems accordingly.</li><li>• Design and implement formal policies and procedures over domain administrator and other privileged accounts.</li><li>• Design and implement a formal security awareness training program for employees.</li><li>• Appropriately update systems to ensure vendor support and maintenance.</li><li>• The Department has completed several vulnerability assessments performed by independent contractors and external third-parties. Management should carefully review the findings from these assessments and develop a plan to prioritize and address the findings.</li></ul> <p><u>Change management</u></p> <ul style="list-style-type: none"><li>• Implement formal policies and procedures to ensure changes to production are consistently and appropriately authorized, tested, accepted and tracked.</li></ul>	<p>Not accomplished. Refer to current year finding 2024-001.</p>

**STATUS REPORT (Continued)**  
**Fiscal Year Ended June 30, 2024**

<b>Recommendations</b>	<b>Status</b>
<p><b>2023-002 Timeliness of Processing Monthly Billing Statements to Customers (Pages 69 - 70)</b></p> <p>We recommend that the Department perform the following:</p> <ul style="list-style-type: none"><li>• Continue its effort to replace meter transponder units as part of the Department's Meter and Transponder Replacement Project.</li><li>• Evaluate the current number of meter reader and field collection personnel to ensure that the number of personnel is sufficient to retrieve actual water consumption data and process monthly billing statements in a timely manner.</li><li>• Evaluate whether the Department's billing systems should be reconfigured to allow for more estimated billings to occur before automatically suspending billings that would require a manual read.</li></ul>	<p>Accomplished.</p>
<p><b>2023-003 Improve Internal Communication (Page 71)</b></p> <p>We recommend that the Department implement a process to facilitate effective communication of all significant matters and activities which may have an effect on the Department's financial statements.</p>	<p>Accomplished.</p>
<p><b>2023-004 Improve Procedures to Identify and Account for Contracts (Page 72)</b></p> <p>We recommend designing and implementing formal policies and procedures to identify and analyze all contracts for goods and services in order to determine the proper accounting and financial reporting treatment for each contract in accordance with GAAP. This would include the establishment of a centralized contract register that includes pertinent data about each contract, such as the commencement date, the contract term (including any options to extend or terminate the contract), the payment terms (including any variable payment arrangements), and a brief description of the nature of the goods and services received by the Department. This would likely require effective and timely communication between the various divisions of the Department to ensure that the Fiscal division is provided with all relevant information needed to carry out its accounting and financial reporting responsibilities.</p>	<p>Not accomplished. Refer to current year finding 2024-002.</p>

INFORMATIONAL

BRIEFING

# WATER SYSTEMS INVESTMENT PLAN (WSIP)

## FACILITIES RESERVE CHARGE (FRC) DRAFT RESULTS

MARCH 20, 2025 DOW BOARD MEETING



Harris & Associates



# Framework for FRC Meetings with the Board

---

- Today – Introduce the Draft Capital Improvement Program (CIP) and Draft FRC Results to the Board
- April 1st – Engage in initial discussions of the draft CIP assumptions and draft FRC development with the Board

# Today's Agenda



1. Water Systems Investment Plan (WSIP) Project Overview and Objectives
2. CIP Development
3. FRC Overview
  - Definition/Purpose
  - Steps for DOW's FRC Calculation
4. Next Steps



# PREVIEW - NEXT STEPS

- Receive initial Board feedback today, March 20th
- DOW staff and Brown & Caldwell/Harris team finalize key assumptions
- Board FRC workshop scheduled for April 1, 2025 from 10 am – 2 pm
  - Detailed Discussions of:
    - CIP Assumptions
    - Draft FRC Calculation
    - Draft FRC Implementation
- Discuss with Board during April 1 Board Workshop
- Determine schedule for public hearings
- Determine implementation date for any new FRC

---

# WSIP Overview and Objectives

# PURPOSE OF THE WATER SYSTEMS INVESTMENT PLAN (WSIP)



- It has been 24 years since last review of the Department's water infrastructure, technology, and hydrologic conditions of Kauai's source, storage, and delivery capabilities and associated system needs took place.
- Growth since 2001, gaps between DOW's nine water systems, the advent of the Surface Water Treatment Plant (2004), and considerable development over those 24 years drove the need for an all-inclusive assessment of Kauai's water system capabilities. Related considerations include the uncertain status of the former plantation-managed open-air reservoirs and impoundments, the impact of continuing drought conditions, and the discussion surrounding the desire to embrace and develop strategies supporting a One Water methodology.
- Our team's focus in this new plan includes age of infrastructure – below and above ground, required fire protection and suppression readiness, and the ability to provide sustained, redundant, and technology-driven system capabilities that enables our Operations staff the ability to make well-informed decisions prior to addressing callouts and emergency responses.
- This WSIP, along with our recently adopted Water Use and Development Plan, are necessary tools to identify required funding needs to adequately implement our mission statement – ***“ Together, we provide safe, affordable, sufficient drinking water through wise management of our resources and with excellent customer service for the people of Kauai”***

# WSIP OUTCOMES



Develop robust **GIS and hydraulic modeling** tools that support utility planning and system operations.



Provide in-person and virtual **training** sessions so that DOW staff are prepared to leverage tools.



Use tools to develop a **20-year CIP**, as an update to **Water Plan 2020**, supporting DOW and the Board of Water Supply goals and objectives.



Establish justifiable **Rates and Facility Reserve Charge** aligned with the WSIP CIP.

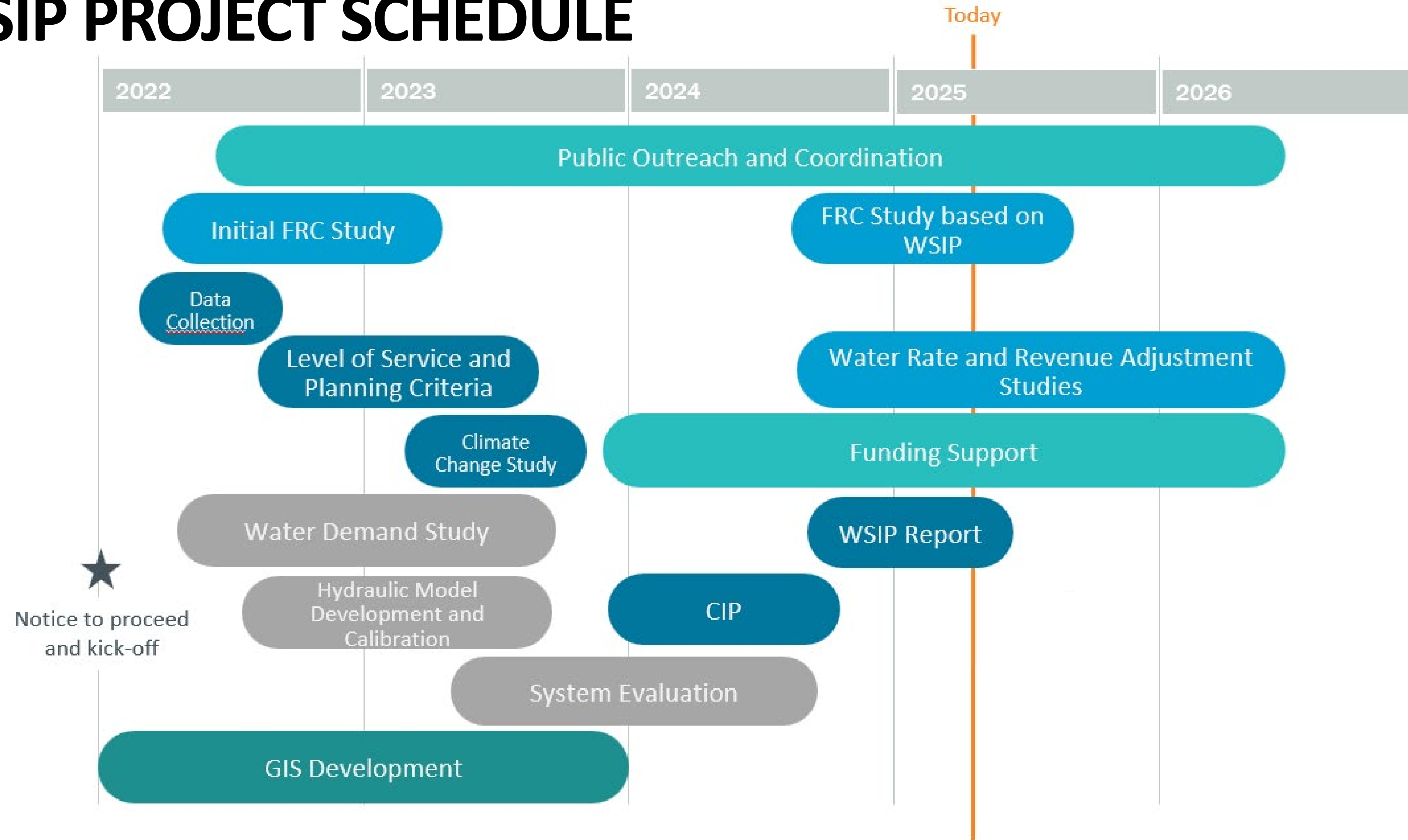


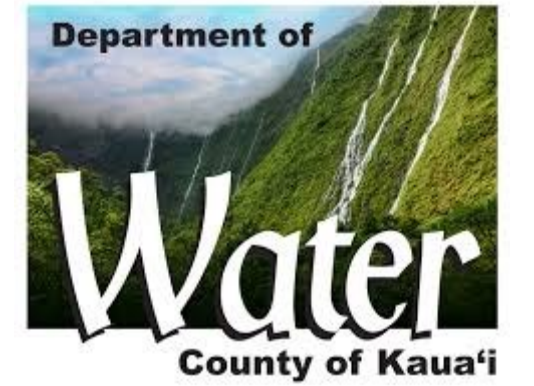
Identify alternative **funding opportunities** to support implementation of the CIP.



**Coordinate** with stakeholders and **communicate** with the people of Kaua'i.

# WSIP PROJECT SCHEDULE





# HISTORY OF CIP, FRC, AND RATES

## FRC and Rates

- Facilities Reserve Charge (FRC) is a one-time fee charged to new customers to recover the costs of backbone facilities (source, storage, transmission).
- Rates and charges billed to all DOW customers recover O&M and capital costs.

## Last Updates

- Water Plan 2020 developed previous CIP. Published in 2001.
- FRC was last updated in 2015.
- The last rate increase was effective July 1, 2014.

## Current Update

- WSIP project updated draft CIP in 2024.
- Projects from Water Plan 2020 that were not completed and still needed are included in 2024 CIP.
- Updated CIP needed to establish infrastructure requirements prior to updating FRC and rates.

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# CIP Development

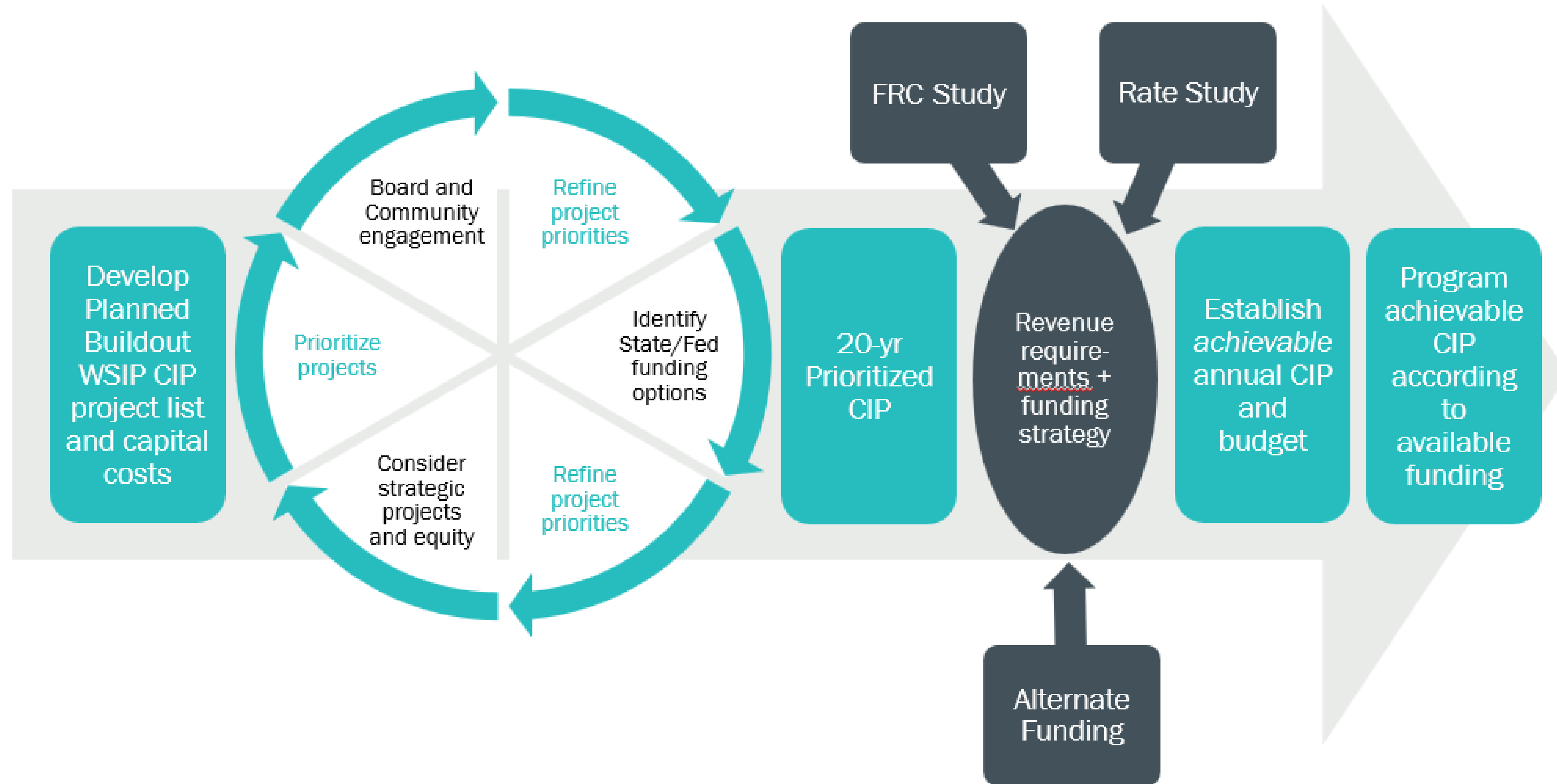
# CIP DEFINITIONS

- “Planned Buildout” CIP
- “20-Year Prioritized” CIP
- “Achievable Prioritized” CIP



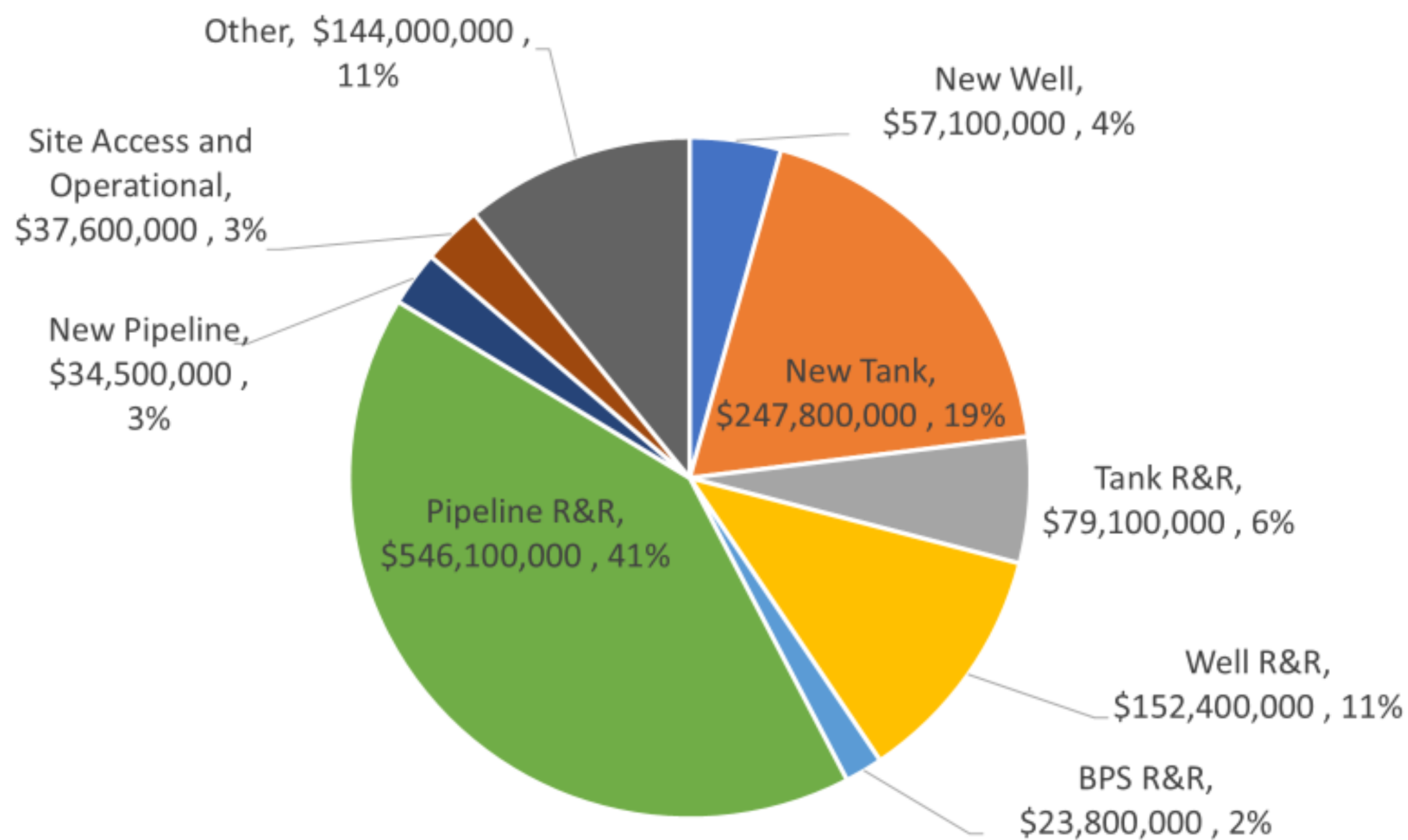


# THE CIP "PROCESS"



# “Planned Buildout” CIP\*

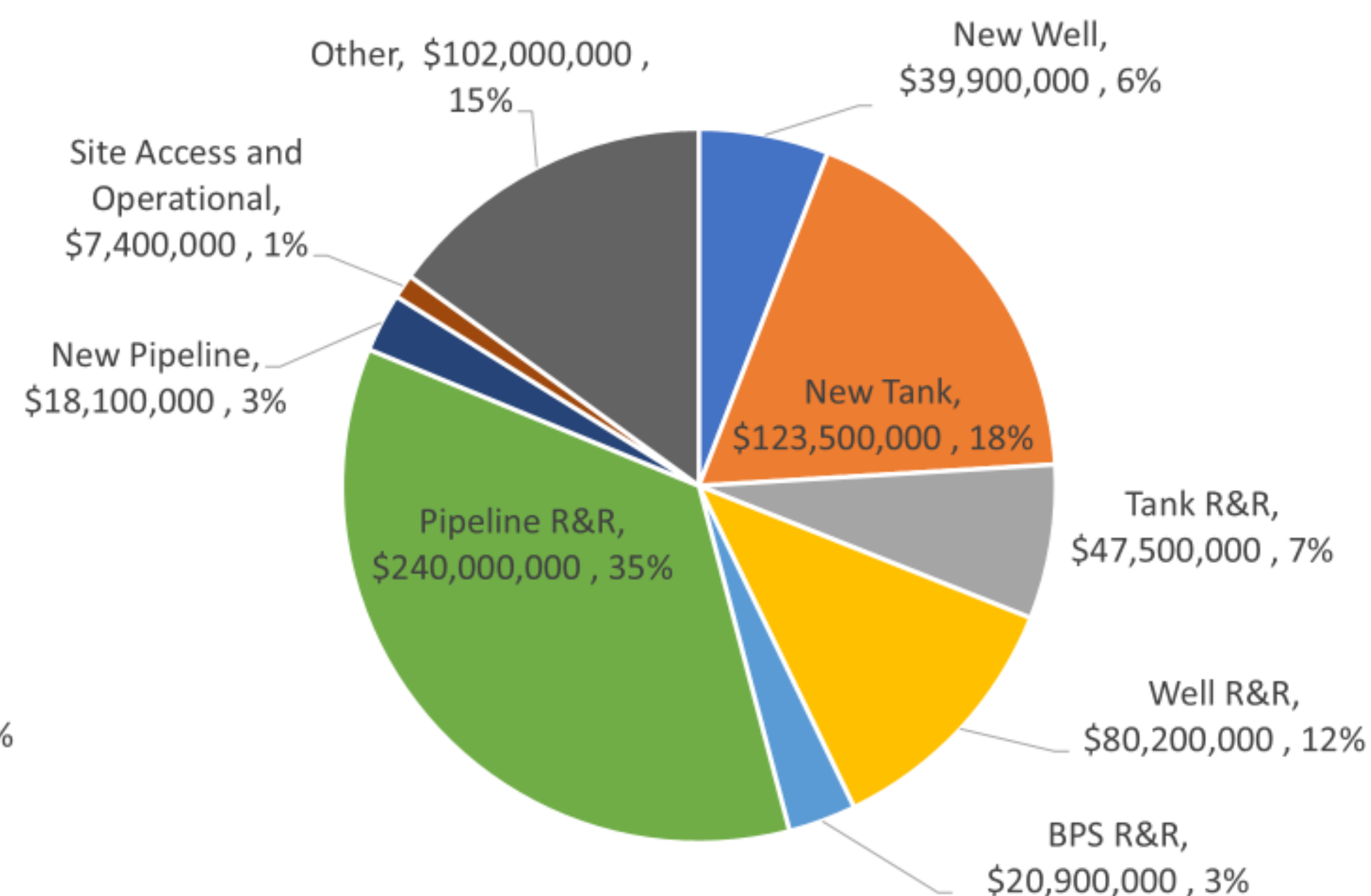
160 Projects, \$1.3B, ~66M/year



- New Well
- New Tank
- Tank R&R
- Well R&R
- BPS R&R
- Pipeline R&R
- New Pipeline
- Site Access and Operational
- Other

# 20-Yr Prioritized CIP\*

127 Projects, \$680M, ~34M/year

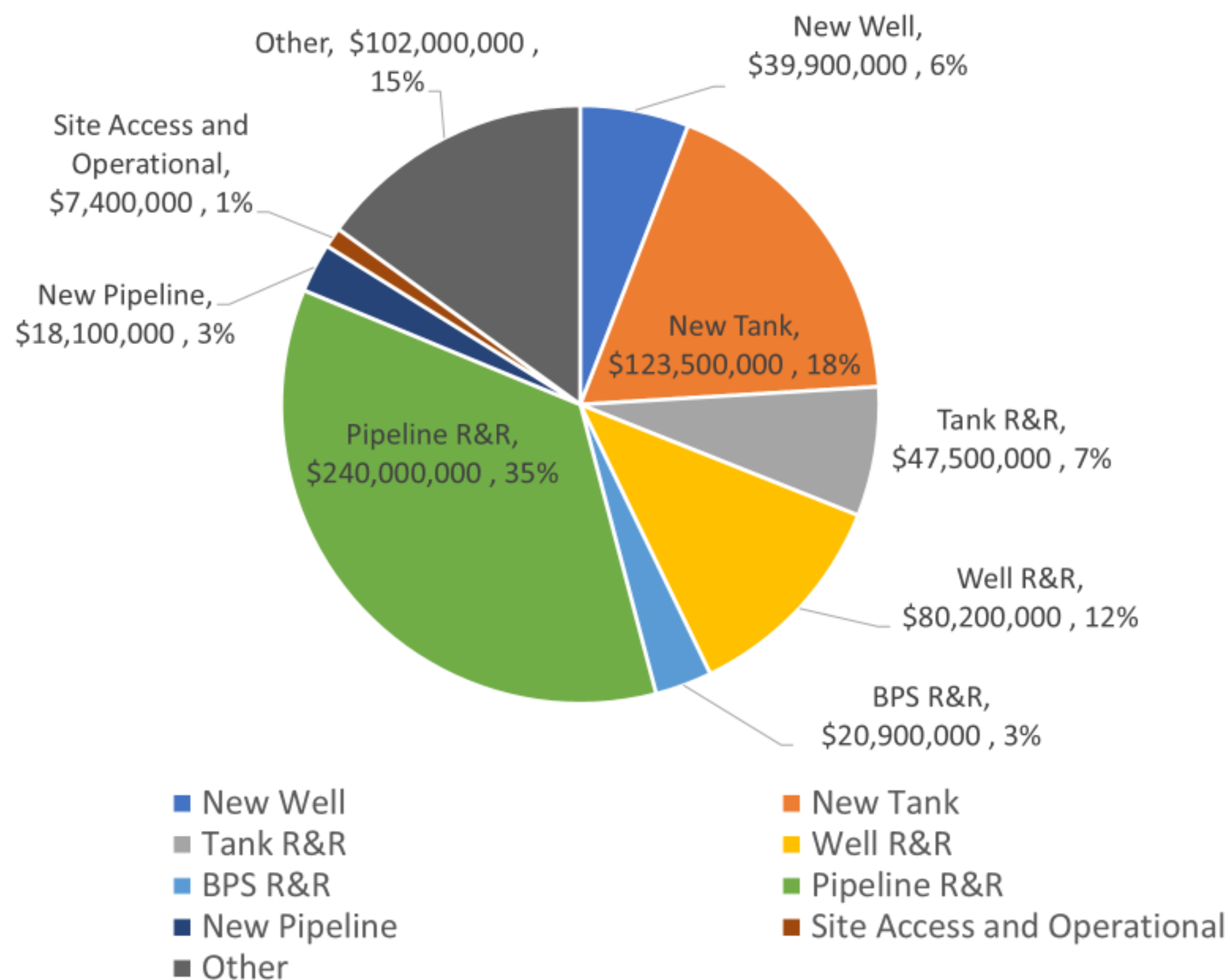


- New Well
- New Tank
- Tank R&R
- Well R&R
- BPS R&R
- Pipeline R&R
- New Pipeline
- Site Access and Operational
- Other

\*As of March 4, 2025

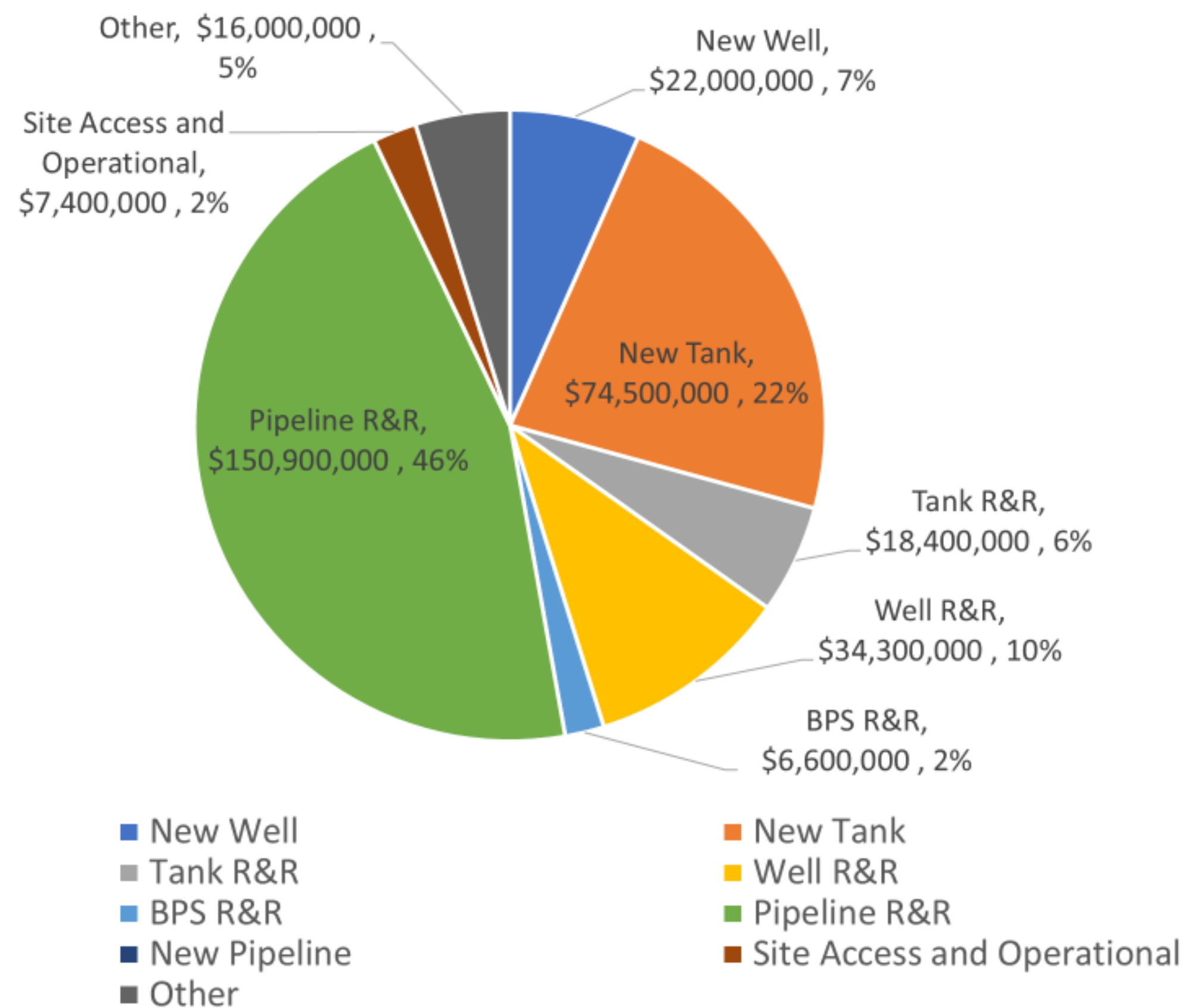
# 20-Yr Prioritized CIP\*

127 Projects, \$680M, ~34M/year



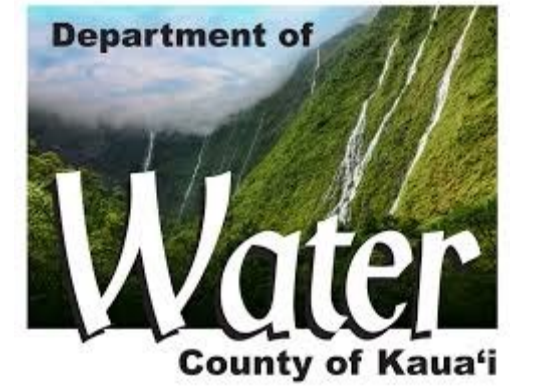
# “Prioritized Achievable” CIP\*

98 Projects, \$330M, ~16.5M/year

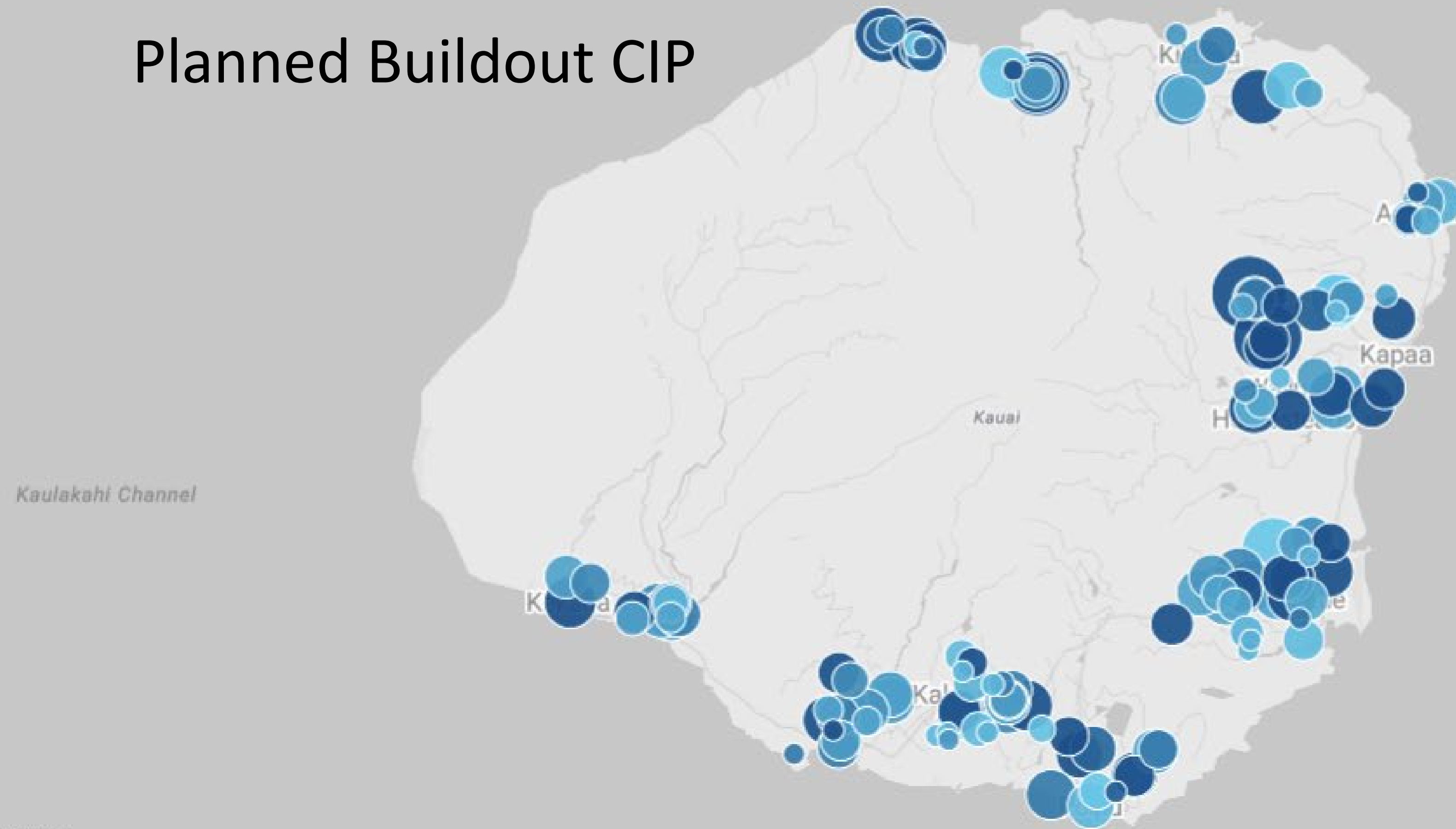


\*As of March 4, 2025

# DRAFT CIP PRIORITIZATION



## Planned Buildout CIP



### LEGEND

Lower Benefit

Higher Benefit

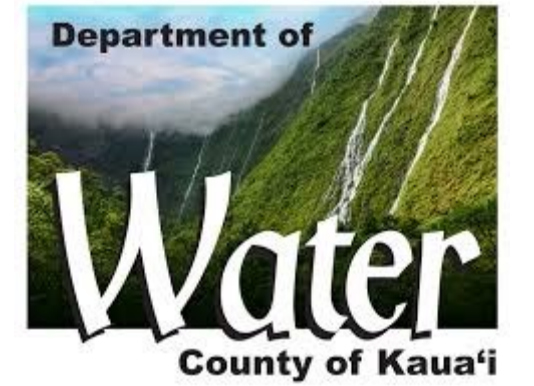


Lowest Cost

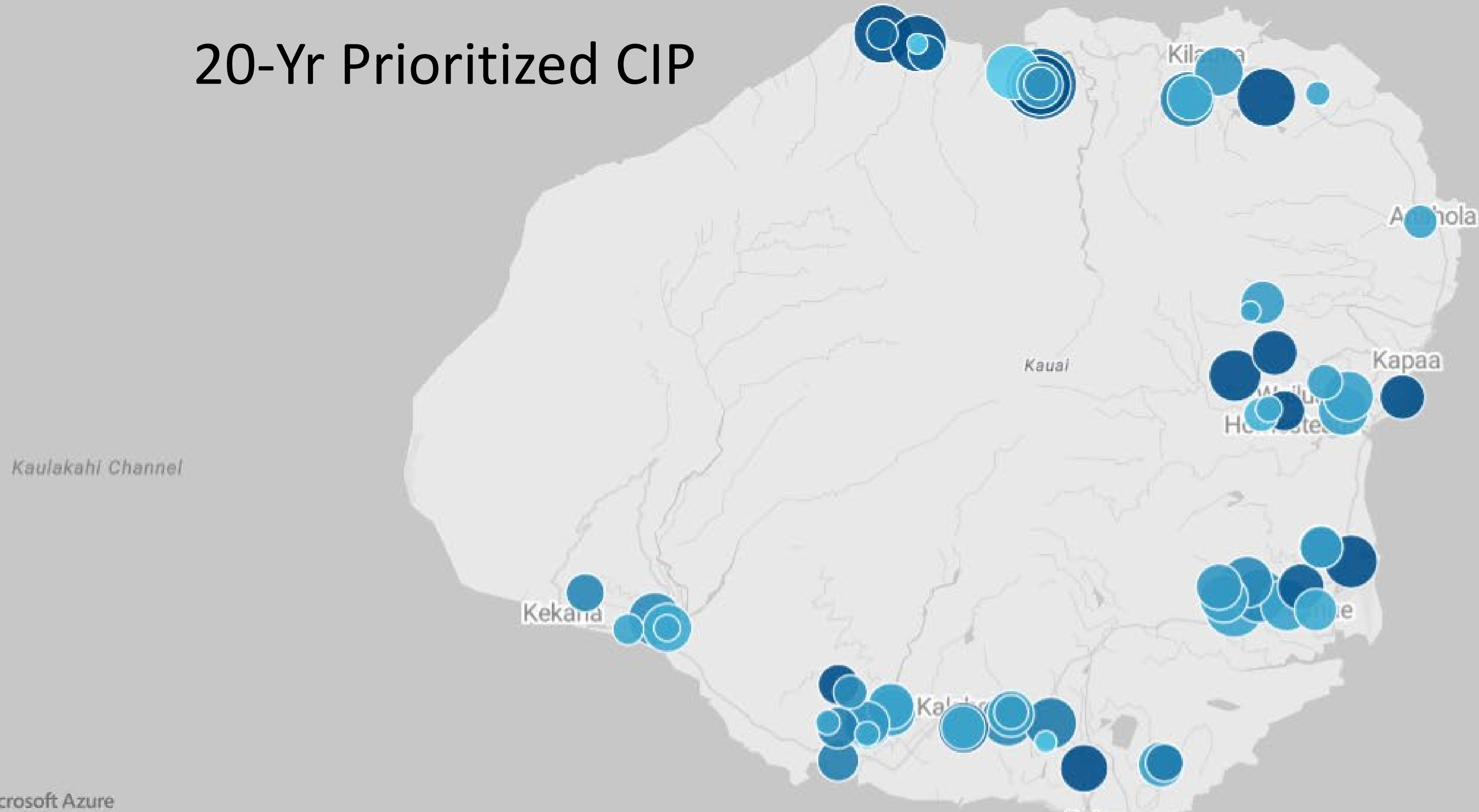
Highest Cost



# DRAFT CIP PRIORITIZATION



## 20-Yr Prioritized CIP



### LEGEND

Lower Benefit

Higher Benefit

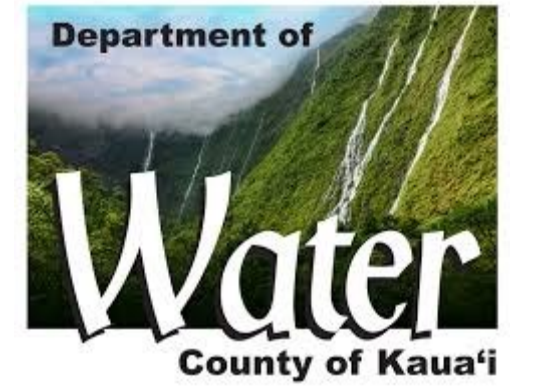


Lowest Cost

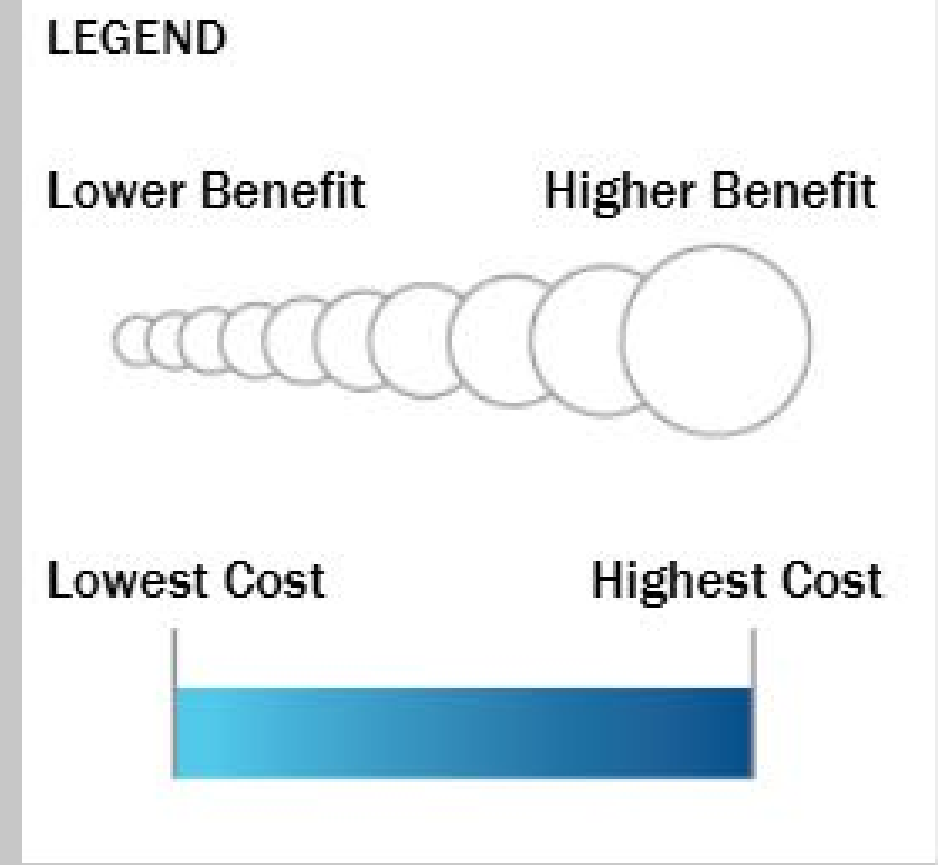
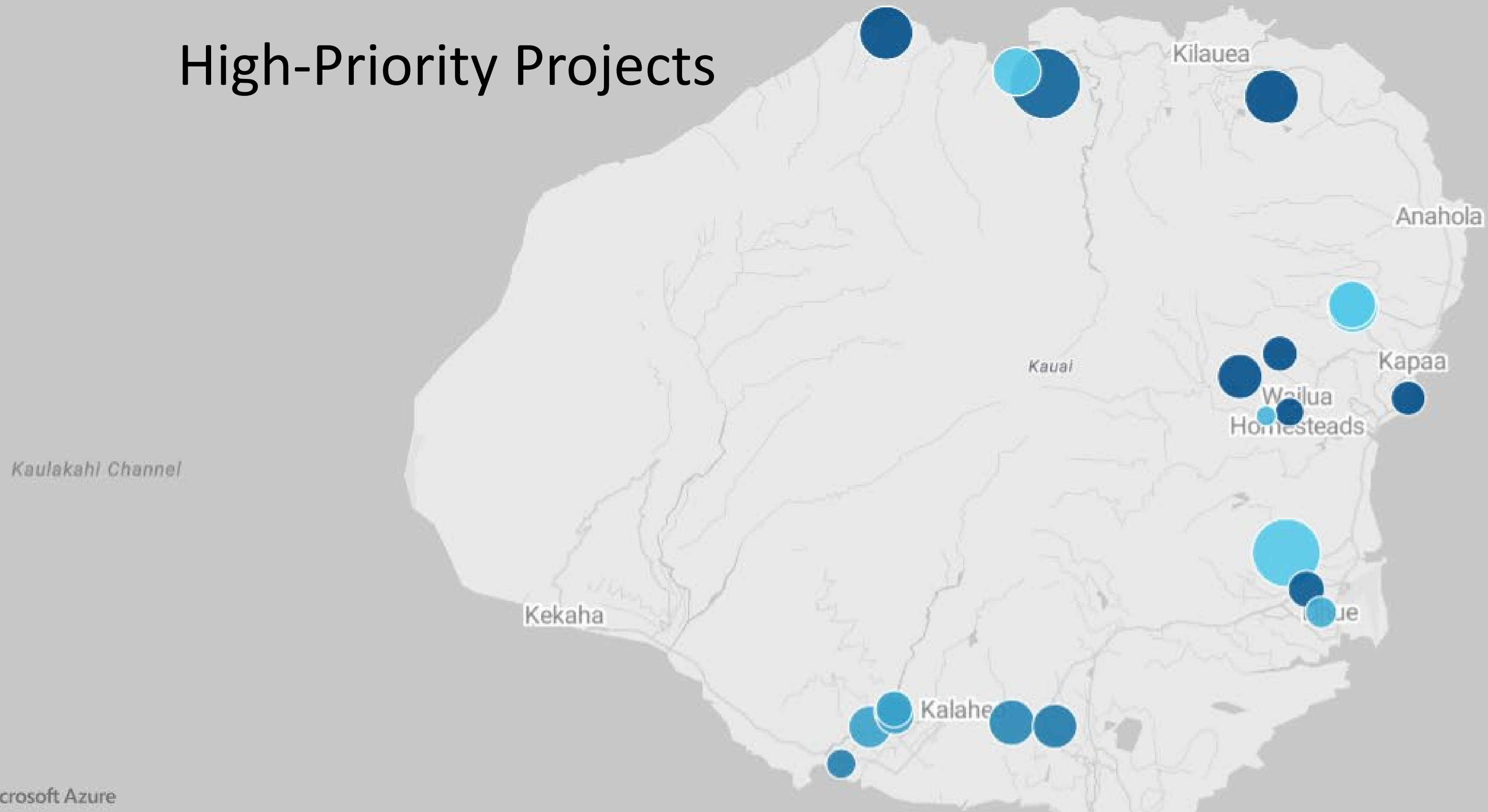
Highest Cost



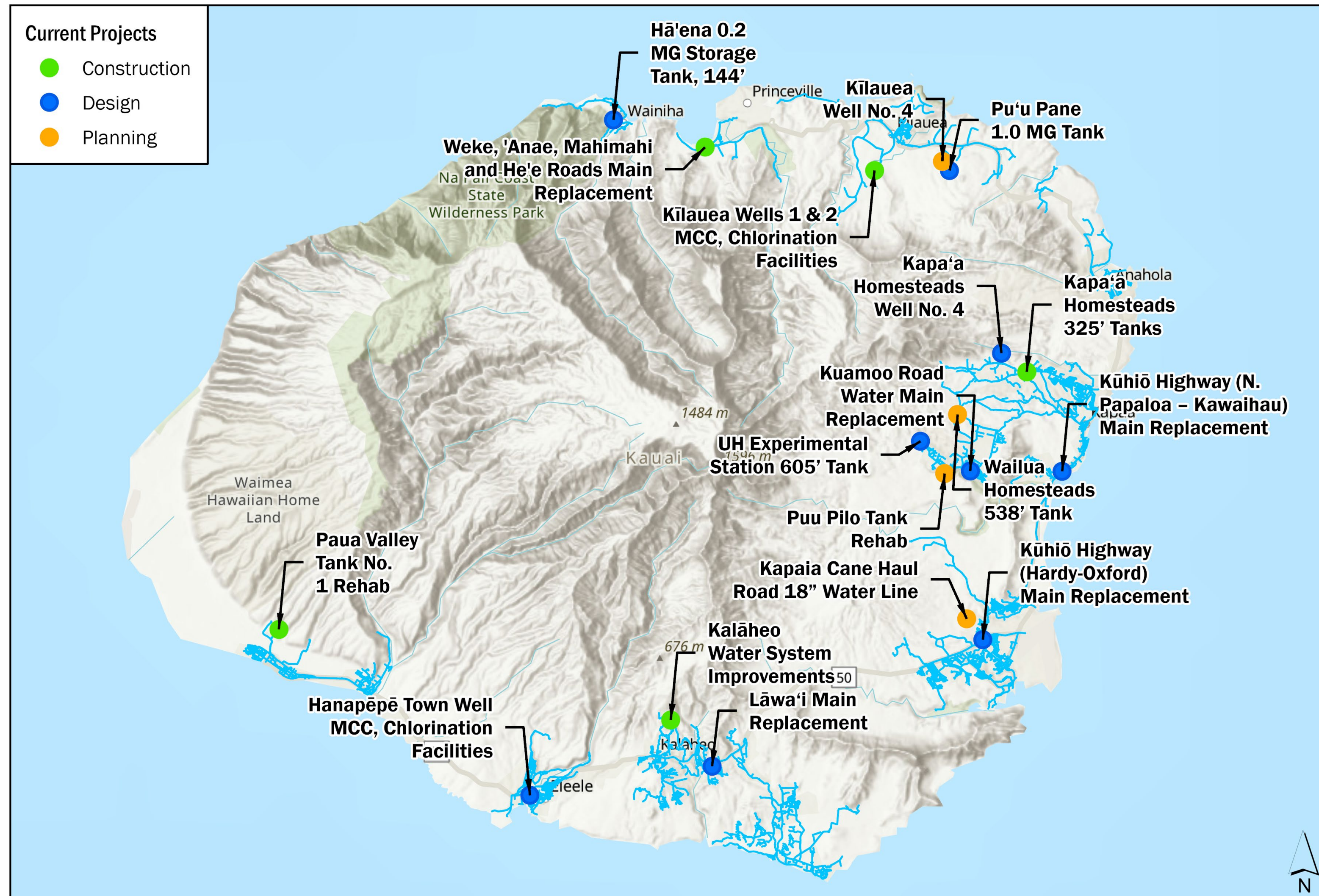
# DRAFT CIP PRIORITIZATION



## High-Priority Projects



# PROJECTS CURRENTLY IN PROGRESS



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# FRC Overview

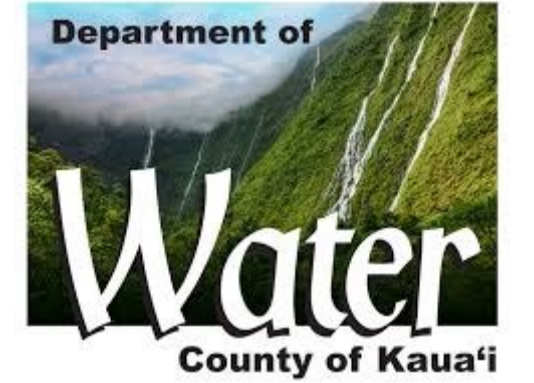


# FRC OVERVIEW – DEFINITION/PURPOSE



- A FRC is a one-time charge imposed on new water service connections and represents a proportionate share of the cost of facilities necessary to serve new development
- The American Water Works Association (AWWA) “Incremental Approach” methodology was used
- Incremental cost of additional system capacity needed to serve growth
  - Growth-related cost divided by growth-related capacity added
  - Most appropriate when upsizing and/or new facilities are needed to accommodate growth
  - DOW has existing capacity deficiencies in majority of water systems
  - FRC calculated by water system components of Source, Storage, and Transmission

# FRC OVERVIEW – DEFINITION/PURPOSE



- The calculated draft FRC is the maximum allowable charge
- Board can adopt a FRC lower than the calculated charge
  - Impact of reduced FRC collections from charging lower than the max FRC could result in deferred projects and/or use of rates to fund the shortfall
- FRC collections may be used to fund growth-related CIP projects and/or to pay growth-related debt service
  - This is a policy choice for the Board

# FRC OVERVIEW

## KEY STEPS TO FRC CALCULATION



1. Develop a prioritized and achievable 20-year CIP
2. Identify growth-related (capacity-increasing) projects from prioritized 20-year CIP to include in the FRC
3. Identify assumptions for CIP projects for potential grant funding
4. Allocate total demand by project between existing and future growth needs
5. Determine cost basis by project for growth (% growth demand x project cost)
6. Derive unit cost of growth-related capacity (\$/gpd)
7. Convert unit cost to equivalent residential unit (ERU) charge basis (max-day demand for 5/8" meter)
8. Apply ERU to FRC schedule (currently based on meter size)
9. Calculate applicable credits:
  - Cash balance in FRC Fund available for new growth-related projects (current cash balance committed to prior projects)
  - Assumption for debt-financed growth-related projects to be repaid by rates

**Staff is finalizing proposed project estimates to be included in final financial results for presentation and discussion with the Board at the scheduled April 1, 2025 workshop.**

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

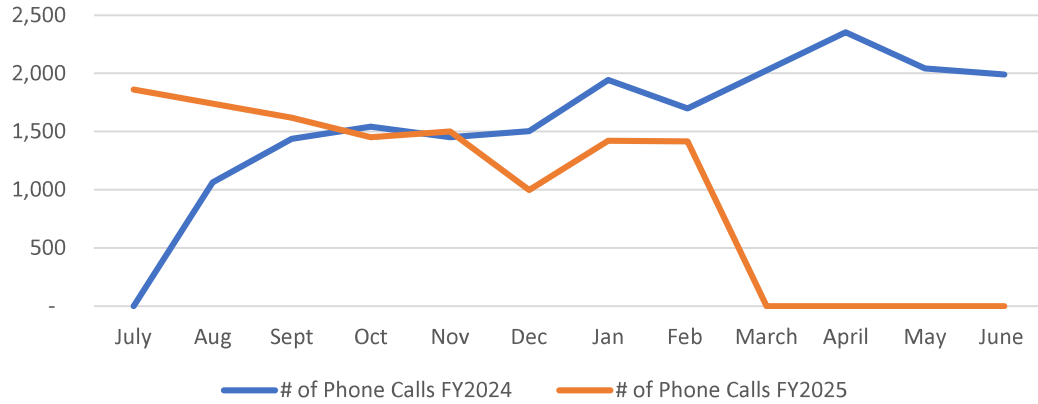
STAFF

REPORTS

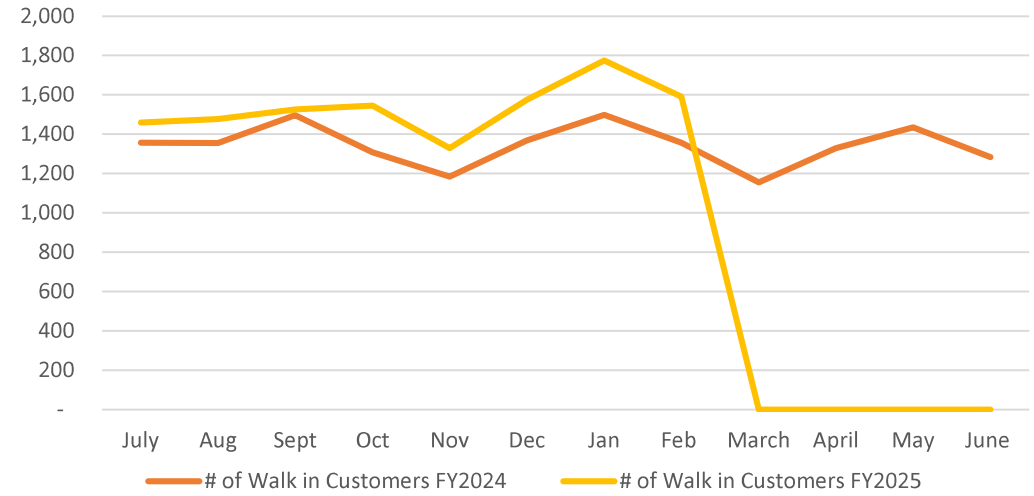


# FISCAL DIVISION DASHBOARD

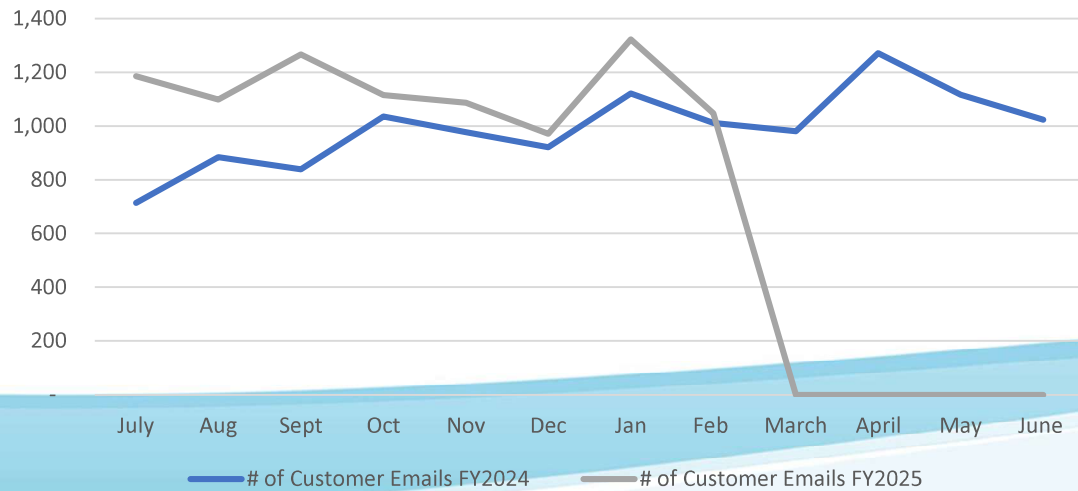
### # of Customer Service Calls



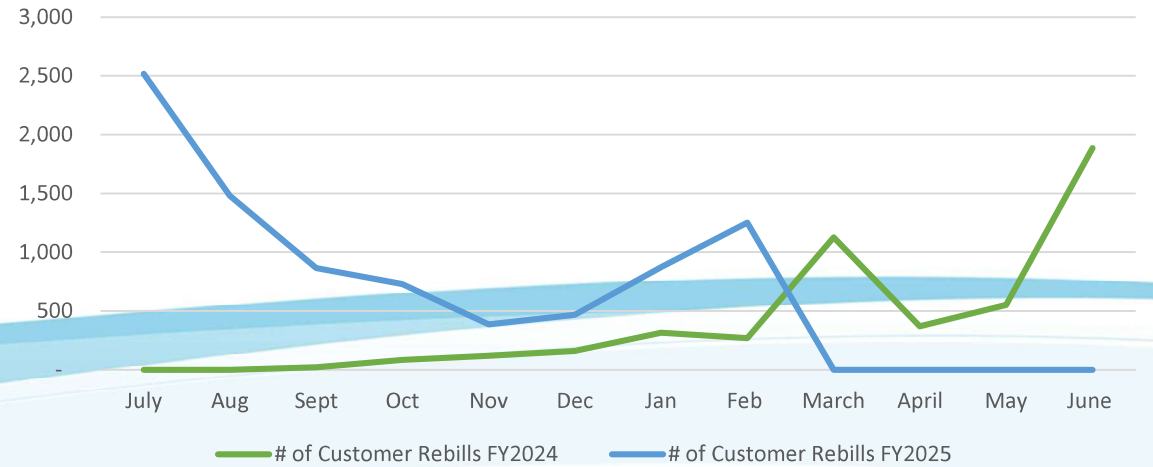
### # of Walk in Customers



### # of Customer Emails and Correspondence



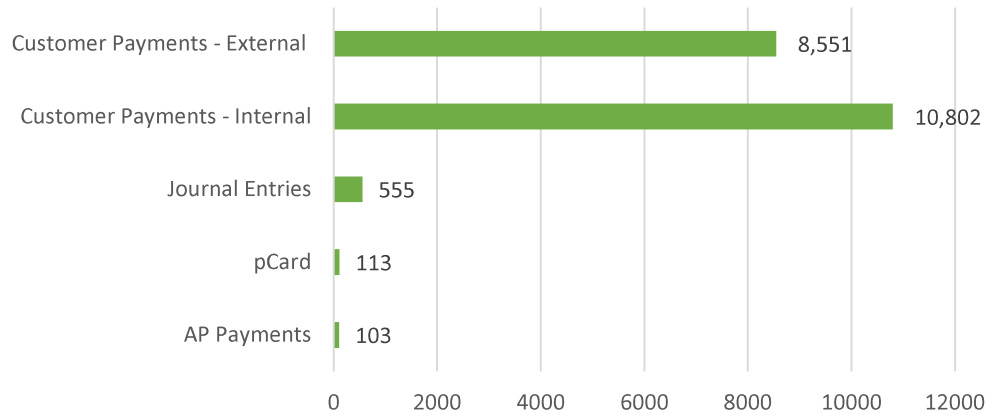
### # of Customer Rebills





# FISCAL DIVISION DASHBOARD

## Accounting Highlights

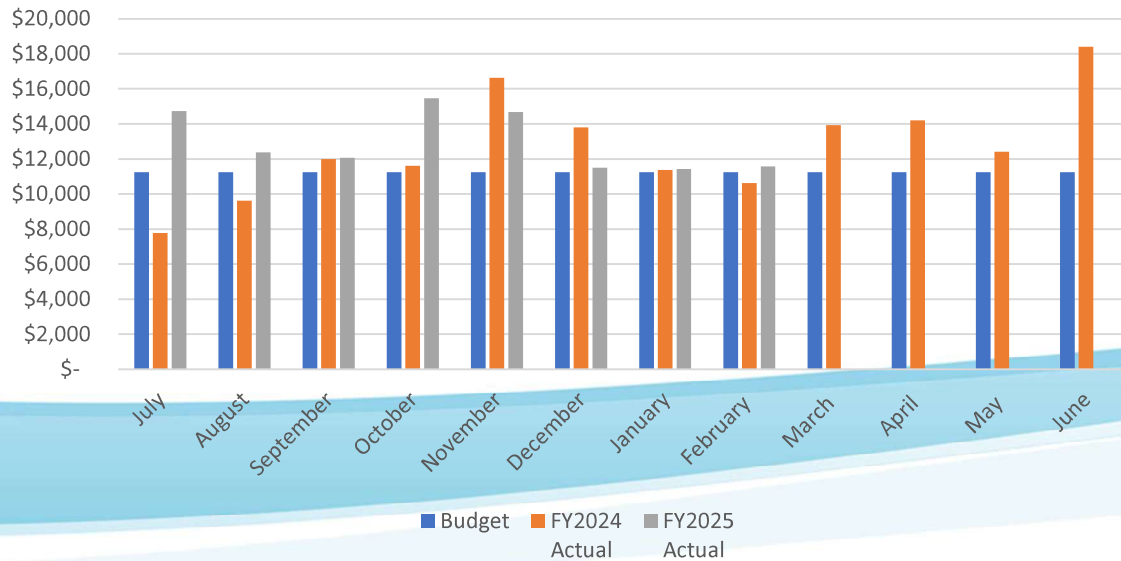


**Transponder Replacement Highlights:**

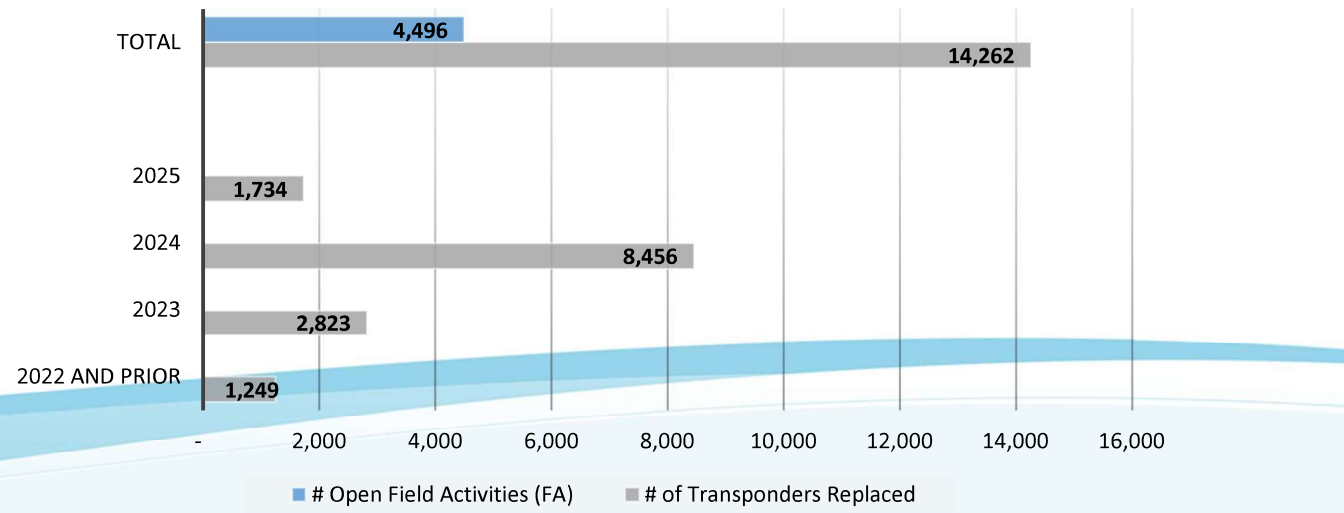
- 997 Transponders Replaced in February 2025.
- 62% Replaced to date.
- 21% Failed; awaiting replacement.
- 17% Active; expected to fail soon.

Monthly Transactional Volume processed and reconciled by the Accounting Team.

## Overtime



## Transponder Replacement Progress (Calendar Year)



**Department Of Water Budget Report for February 2025**

	February 2025			Fiscal Year 2025			
	Budget	Actual	Variance	Year to Date Budget	Year to Date Actual	Variance	Variance %
<b>Operating</b>							
Revenue	\$ 2,765,742.00	\$ 2,477,065.44	\$ (288,676.56)	\$ 22,125,936.00	\$ 27,576,989.91	\$ 5,451,053.91	24.6%
Expenses							
Labor *	\$ 1,166,793.00	\$ 1,243,073.29	\$ (76,280.29)	\$ 9,334,344.00	\$ 9,944,586.31	\$ (610,242.31)	(6.5)%
Services	1,341,633.30	449,126.63	892,506.67	10,733,066.40	4,034,865.33	6,698,201.07	62.4%
Utilities & Materials	952,621.84	476,163.67	476,458.17	7,620,974.70	5,962,138.46	1,658,836.24	21.8%
<b>Total Operating Expenses</b>	<b>\$ 3,461,048.14</b>	<b>\$ 2,168,363.59</b>	<b>\$ 1,292,684.55</b>	<b>\$ 27,688,385.10</b>	<b>\$ 19,941,590.10</b>	<b>\$ 7,746,795.00</b>	<b>28.0%</b>
Debt Service Principal & Interest	\$ 247,519.00	\$ -	\$ 247,519.00	\$ 7,075,509.00	\$ 6,286,608.42	\$ 788,900.58	11.1%
Operating and Debt Expenses	\$ 3,708,567.14	\$ 2,168,363.59	\$ 1,540,203.55	\$ 34,763,894.10	\$ 26,228,198.52	\$ 8,535,695.58	24.6%
<b>Net Income (Loss)</b>	<b>\$ (942,825.14)</b>	<b>\$ 308,701.85</b>	<b>\$ 1,251,526.99</b>	<b>\$ (12,637,958.10)</b>	<b>\$ 1,348,791.39</b>	<b>\$ 13,986,749.49</b>	<b>110.7%</b>

\* Current month's labor is estimated

**Capital Projects and Purchases\*\***

	Fiscal Year Budget	February FYD 2025 Actual	Remaining Budget
<b>Water Utility Funded Projects</b>			
IT-RandR Capital Purchases--	\$ 350,610.55	\$ -	\$ 350,610.55
IT-Expansion Capital Purchases--	968,434.45	34,868.73	933,565.72
Eng 11-04 LO-10 Lawai 6n8inch Main Replacement	200,000.00	107,287.16	92,712.84
Eng-69%R-11-07 HE-03 Hanapepe & Koloa Well MCC	571,650.00	2,895.00	568,755.00
Eng-ALLR-23-07 Rehabilitate Puupilo Steel Tank	169,783.00	9,750.00	160,033.00
Eng-Job 18-3 -Kuhio Hwy Hardy-Oxford 16IN Main	2,808,941.82	9,574.49	2,799,367.33
Eng-56%R-Job 23-03 Kuhio Hwy Papaloa to Waikaea	318,284.46	93,453.70	224,830.76
23-02 WK-34, Kuamoo Rd 8" Main Replace (6,500')	13,085.45	28,008.00	(14,922.55)
Cns-44%R-09-01 Yamada Tank Clearwell, Conn Pipe	2,777,114.24	(41,770.28)	2,818,884.52
Ops-R&R-Upgrade and Replace SCADA RTU and PLC	261,281.91	77,994.60	183,287.31
Ops-RandR Capital Purchases	2,193,999.05	29,758.10	2,164,240.95
Ops-Expansion Capital Purchases	631,573.69	42,686.19	588,887.50
Projects with budget but no activity	11,676,322.56	-	11,676,322.56
<b>Total</b>	<b>\$ 22,941,081.18</b>	<b>\$ 394,505.69</b>	<b>\$ 22,546,575.49</b>

**FRC Funded Projects**

Eng-ALLE-12-02 WK-23 UH Expmntal Storage Tank	\$ 304,981.00	\$ 89,231.00	\$ 215,750.00
Eng 04-08 WK-39 Drill Kapaa Homestead Well 4	2,521,934.49	1,050.00	2,520,884.49
Projects with budget but no activity	3,338,518.87	-	3,338,518.87
	<b>\$ 6,165,434.36</b>	<b>\$ 90,281.00</b>	<b>\$ 6,075,153.36</b>

**Build America Bonds Funded Projects**

Projects with budget but no activity	\$ 9,418,863.75	\$ -	\$ 9,418,863.75
	<b>\$ 9,418,863.75</b>	<b>\$ -</b>	<b>\$ 9,418,863.75</b>

**State Allotment Funded Projects**

WK-08-Kapaa Homesteads 2-0.5MG Tanks	\$ 2,400,000.00	\$ -	\$ 2,400,000.00
WK-39, Kapaa Homesteads Well No. 4 Pump and Controls	2,400,000.00	-	2,400,000.00
PLH-27 Kūhiō Highway (Hardy-Oxford) 16' Main Replacement	2,500,000.00	-	2,500,000.00
	<b>\$ 7,300,000.00</b>	<b>\$ -</b>	<b>\$ 7,300,000.00</b>

**State Revolving Funded Projects**

WK-08, Kapaa Homesteads 2.0 5MG Tanks	\$ 5,200,000.00	\$ -	\$ 5,200,000.00
Yamada Tank Conn Pipe	6,926,518.00	3,100,939.84	3,825,578.16
	<b>\$ 12,126,518.00</b>	<b>\$ 3,100,939.84</b>	<b>\$ 9,025,578.16</b>

**Total Capital Projects**

	<b>\$ 57,951,897.29</b>	<b>\$ 3,585,726.53</b>	<b>\$ 54,366,170.76</b>
--	-------------------------	------------------------	-------------------------

**Selected Divisions**

	February 2025			Fiscal Year 2025			
	Budget	Actual	Variance	Year to Date Budget	Year to Date Actual	Variance	Variance %
Engineering	\$ 881,339.59	\$ 341,246.94	\$ 540,092.65	\$ 7,050,716.72	\$ 2,900,172.04	\$ 4,150,544.68	59.%
Fiscal	245,832.78	254,050.35	(8,217.57)	1,966,662.24	1,804,980.24	161,682.00	8.%
Operations	1,561,895.28	1,158,323.64	403,571.64	12,495,162.24	11,372,208.63	1,122,953.61	9.%
	<b>\$ 2,689,067.65</b>	<b>\$ 1,753,620.93</b>	<b>\$ 935,446.72</b>	<b>\$ 21,512,541.20</b>	<b>\$ 16,077,360.91</b>	<b>\$ 5,435,180.29</b>	<b>25%</b>

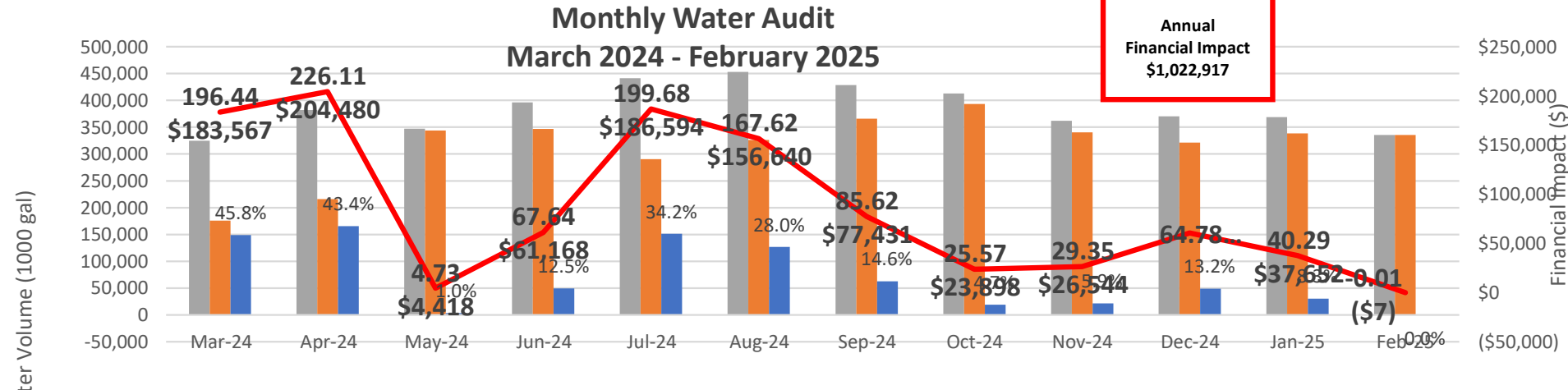




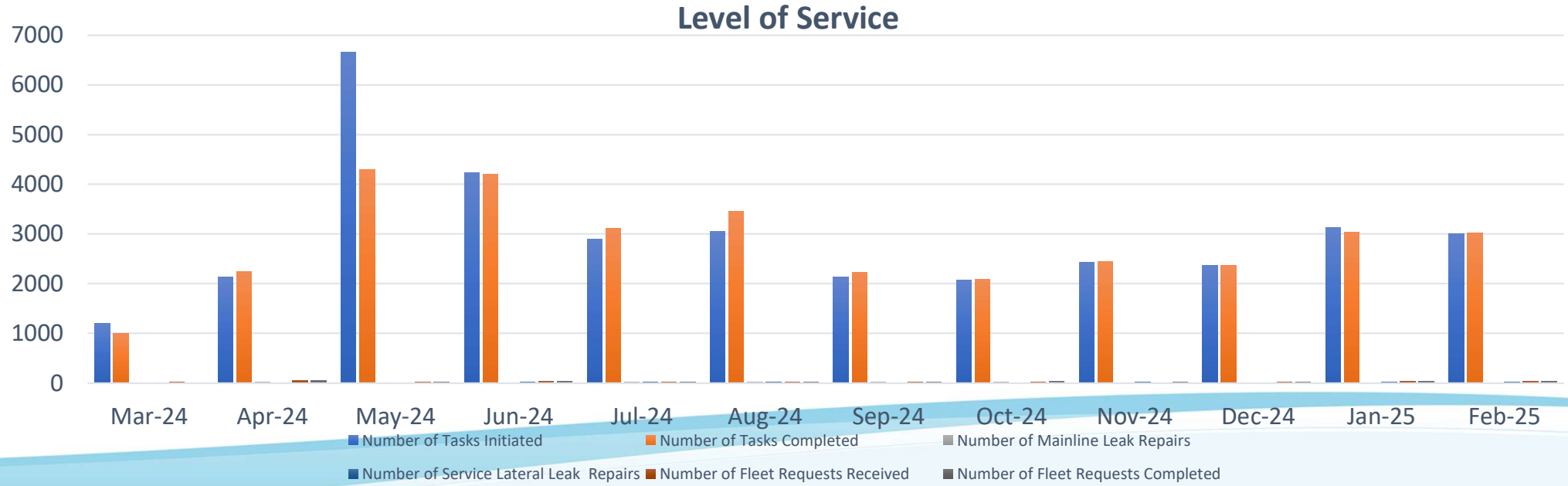
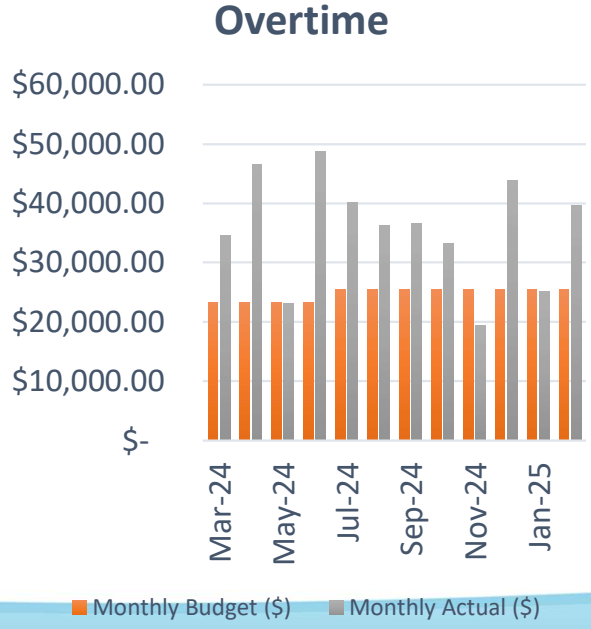
# OPERATIONS DASHBOARD

**Ops Highlights:**

1. Hired 2<sup>nd</sup> Maintenance Worker II.
2. Meter transponder changeout in progress, over 1600 meters replaced in last 2 months.
3. Training conducted for Hazardous Material Asbestos Handling Certification.



	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
Produced (Kgals)	324,631	381,800	347,331	396,223	441,367	452,933	428,498	412,714	361,950	370,356	368,847	335,512
Customer Read (Kgals)	175,924	216,151	343,752	346,671	290,208	326,039	365,771	393,354	340,447	321,320	338,345	335,518
Non-Rev Water (Kgals)	148,707	165,649	3,579	49,552	151,159	126,894	62,727	19,360	21,503	49,036	30,502	-6
Financial Impact	\$183,567	\$204,480	\$4,418	\$61,168	\$186,594	\$156,640	\$77,431	\$23,898	\$26,544	\$60,531	\$37,652	(\$7)



# OPERATIONS

	Last Month		Current Month		Previous FY		Current FY	
					Year to Date		Year to Date	
<b>STAFFING</b>								
Budgeted Staff   Vacancies	48	11	49	10	49	8	49	10
<b>OVERTIME</b>								
Budget (\$)   Actual (\$)	\$25,416.67	\$25,149.33	\$25,416.67	\$21,440.47	\$186,266.67	\$261,658.82	\$203,333.33	\$256,016.10
<b>FLEET MANAGEMENT</b>								
# of Vehicles Active per day	42		41		42		41	
# of Vehicles Active per month	882		783		868		850	
<b>METER PROGRAM</b>								
# of Existing Meters Replaced	1		1		18		248	
# of Existing Meters Repaired	710		913		1871		3950	
# of New Meters Installed	10		17		52		107	
# of New Laterals Installed	0		0		10		2	

# OPERATIONS



## LEVEL OF SERVICE

	Last		Current		Previous		Current	
	Month	Month	Month	Month	FY YTD	FY YTD	FY YTD	FY YTD
# of Tasks Initiated	3138		3012		4790		21107	
# of Tasks Completed	3040		3030		3722		21760	
# of Mainline Leak Repairs	7		10		85		111	
# of Service Lateral Leak Repairs	18		19		100		143	
# of Calls for Service	211		192		1620		1686	
# of Temporary Hydrant Meters Installed	2		4		20		21	
# One Call Request Received   Completed	42	41	54	55	328	327	338	338
# of Auto Shop Requests Received   Completed	41	33	35	45	257	240	202	208
# of Hydrant Hits	1		1		20		10	

## WATER AUDIT

	Last	Current Month	Previous	Current
	Month		FY YTD	FY YTD
Water Produced (Million Gallons)	368.847	335.512	3087.666	3172.177
Customer Meter Reading (Million Gallons)	338.345	335.518	2327.788	2711.002
Non-Revenue Water (Million Gallons)	30.502	0.00	759.878	461.175
Non-revenue %	8%	0%	25%	15%
Financial Impact	\$37,652.28	\$0.00	\$938,008.21	\$569,283.64

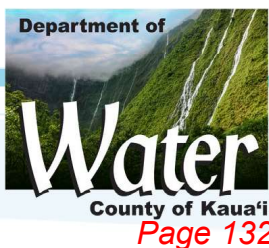


# ENGINEERING DASHBOARD

	Last Month		Current Month		Previous FY Year to Date		Current FY Year to Date	
<b>STAFFING</b>								
Budgeted Staff   Vacancies	25	5	25	5	23	4	-	-
<b>OVERTIME</b>								
Budget (\$)   Actual (\$)	\$12,900	\$18,400	\$12,900	\$22,800	\$39,300	\$146,600	\$103,300	\$179,700

	Last Month		Current Month	
<b>PROJECT MANAGEMENT</b>				
DOW Projects In Design   In Construction	8	10	8	10
Private Projects Design Approved   In Construction	11	165	2	162
Private Projects Construction Completed	1		1	

- CIP Project Highlights:
- Kapa‘a Homesteads 325’ Tanks
    - Pre-Con meeting, 2/7
    - Reviewing submittals
  - Pu‘u Pane 1.0 MG Tank
    - Reviewed 90% submittal
  - Kalāheo Water System Improvements
    - Yamada Tank and Clearwell Tank complete
    - Working on change order proposal to upgrade booster pumps at 908’ Tank site and Yamada Tank site
  - Kūhiō Hwy (Hardy-Oxford) 18” Main Replacement
    - Awarded project to Alpha, Inc.
  - Weke, ‘Anae, Mahimahi and He‘e Roads 6” and 8” Main Replacement
    - Reviewing/responding to submittals
  - Hanapēpē Town Well MCC, Chlorination Facilities
    - Pre-con meeting 3/17
  - Līhu‘e Administrative Building Fencing
    - Field work to start week of 3/24
  - Līhu‘e Baseyard Electrical Relocation
    - Awarded project to Paul’s Electrical, 2/13



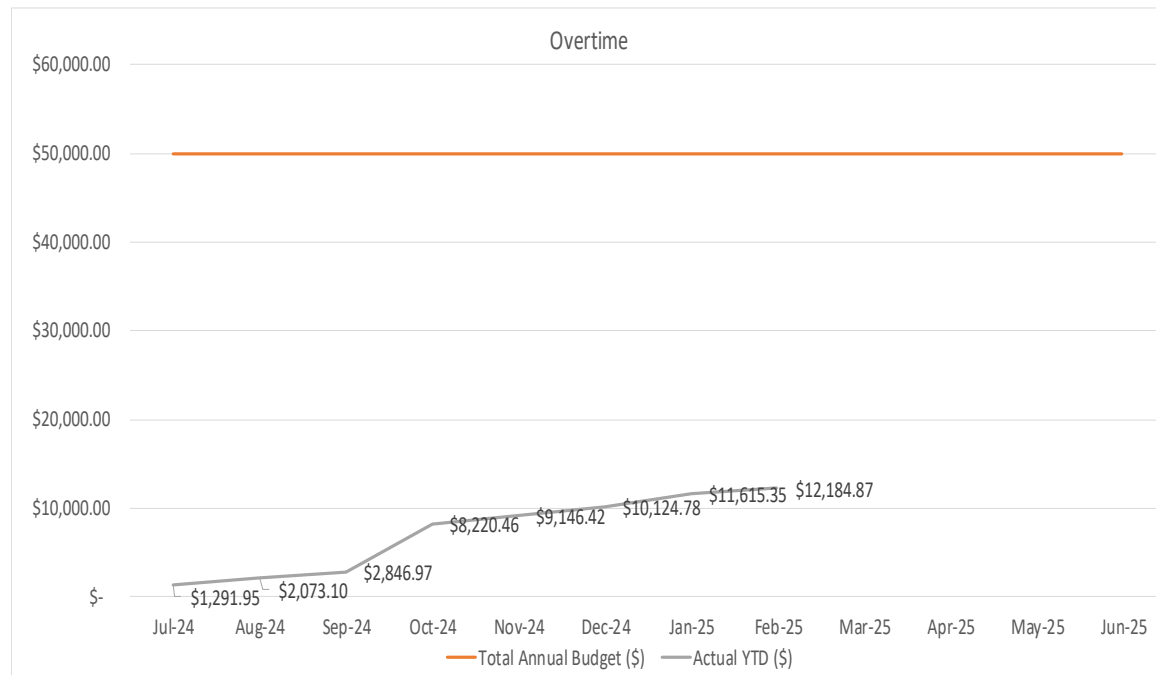
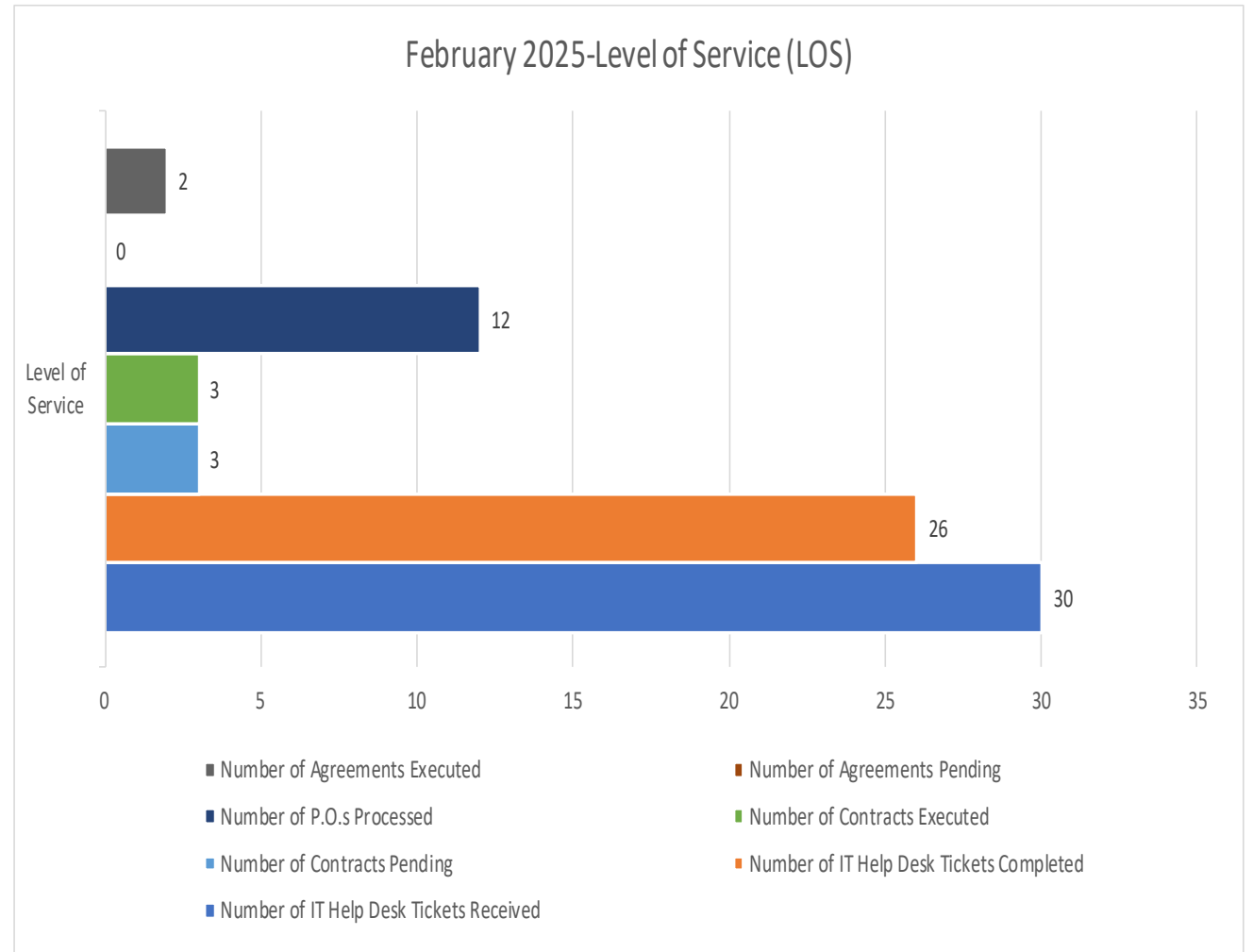
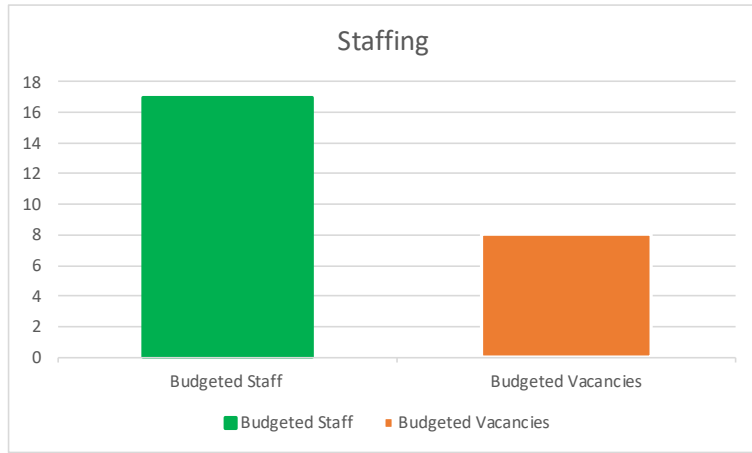
# ENGINEERING DASHBOARD

	Last Month		Current Month		Previous FY Year to Date		Current FY Year to Date	
<b>WATER RESOURCES AND PLANNING</b>								
Number of Customer Requests Received   Completed								
Subdivision Applications, Zoning, Land Use and Variance Permits	17	24	18	7	51	57	77	64
ADU/ARU Clearance Applications	14	10	12	14	13	34	43	41
Building Permits	185	130	158	174	1,095	1,125	1,195	1,145
Water Service Requests	32	14	31	35	171	178	238	238
Government Records Request	4	3	8	6	15	16	34	26
Backflow Inspection # of Devices Tested	107		75		803		850	

## DOW Project Highlights:

- Water Systems Investment Plan (WSIP)
  - Working on FRC update
- As-Needed Grant Writing and Preparation Services
  - Applied for Drought Resiliency Grant with USBR for Hā'ena 0.2 MG Tank Construction 10/7/24
  - Applied for WaterSMART Grant for AMI Meters 11/13/24
- AWIA RRA/ERP
  - Contracting

# ADMINISTRATION DASHBOARD



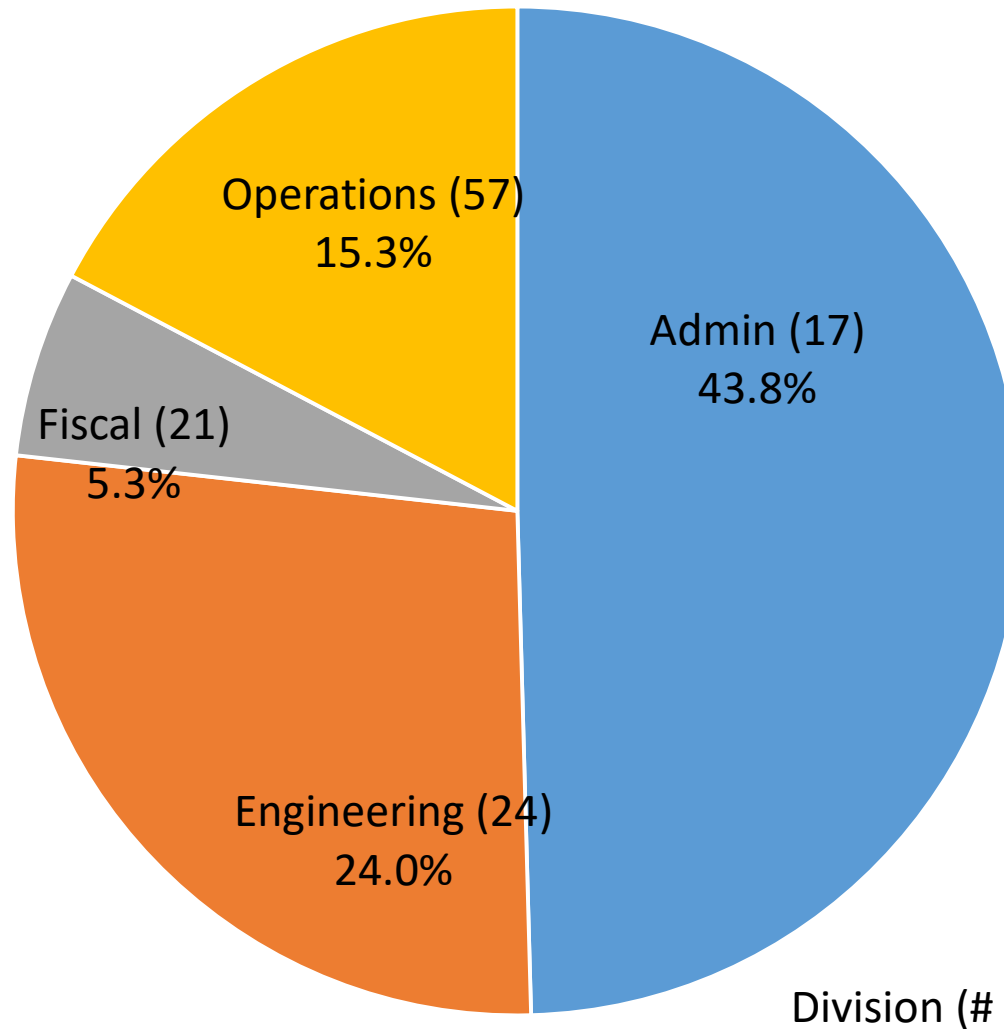
# ADMINISTRATION

	Jan-25		Feb-25		Previous FY YTD		Current FY YTD	
<b>STAFFING</b>								
Budgeted Staff vs Vacancies (Admin-HR-IT-PR)	17	9	17	8	17	8	17	8
<b>OVERTIME</b>								
Budget (\$) vs Actual (\$)	\$ 4,166.67	\$ 1,490.57	\$ 4,166.67	\$ 569.52	\$ 33,333.33	\$ 69,860.80	\$ 33,333.33	\$ 12,184.87

	Jan-25		Feb-25		Previous FY YTD		Current FY YTD	
<b>LEVEL OF SERVICES</b>								
# of IT Help Desk Tickets Received   Completed	41	36	30	26	358	235	361	305
# of Legal Claims Outstanding   Resolved	0	0	0	0	0	0	0	0
# of Contracts Pending   Executed	1	3	3	3	1	10	3	13
# of Purchase Orders Processed	22		12		182		160	
# of Agreements Pending   Executed	0	7	0	2	0	10	0	32
# of MOU   MOA Pending	0	0	1	0	0	0	1	0
# of MOU   MOA Executed	0	0	0	0	1	0	1	1

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

## % Vacancy Within Each Division Level





DEPARTMENT OF WATER

County of Kaua'i

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

MANAGER'S UPDATE

March 20, 2025

*Pursuant to Board Policy No. 3*

**1. CONTRACT AWARD TO PAUL'S ELECTRICAL CONTRACTING, LLC  
JOB NO. 24-14, LIHU'E BASEYARD ELECTRICAL RELOCATION**

RECOMMENDATION:

It is recommended that the Manager approve a construction contract award to Paul's Electrical Contracting, LLC in the amount of \$180,700.00.

FUNDING:

Account No.	10-20-00-604-175		
Acct Description	WU/Eng/Admin/Capital Outlay – R&R (Demo Old Admin Building (Phase I) Relocate Electrical Conduit and Add ATS to Microlab)		
Funds Available	<i>Verified by WWC</i>		\$750,000.00
Contract No.	781		
Vendor	Paul's Electrical Contracting, LLC		
	Contract Amount	\$180,700.00	
	5% Contingency	\$N/A	
	Total Funds Certified	\$180,700.00	<\$180,700.00>
Fund Balance			\$569,300.00

BACKGROUND:

The Lihu'e Baseyard Electrical Relocation project consists of relocating the existing electrical feeder from the Former Administrative Building to the Operations Building; constructing a new electrical ductline from the existing service switchboard to the new electrical feeder; and replacing the existing electrical manual transfer switch with an automatic transfer switch at the Microlab building entrance, as indicated in the contract drawings and specifications.

**2. PROFESSIONAL SERVICES DOW-2025-PROF-1, CONTRACT AWARD TO R.M. TOWILL CORPORATION  
JOB NO. 25-03, AS-NEEDED SURVEYING SERVICES 2025-2027**

RECOMMENDATION:

It is recommended that the Manager approve a professional services contract award to R.M. Towill Corporation in the amount of \$50,000.00.

FUNDING:

Account No.	10-20-10-540-010		
Acct Description	WU/Eng/Admin/Professional Services		
Funds Available	<i>Verified by WWC</i>		\$50,000.00

Contract No.	783		
Vendor	R.M. Towill Corporation		
	Contract Amount	\$50,000.00	
	5% Contingency	N/A	
	Total Funds Certified	\$50,000.00	<\$50,000.00>

**BACKGROUND:**

The Department of Water (DOW) is requesting as-needed surveying services be contracted in the event surveying services are needed.

**3. CHANGE ORDER NO. 5 TO CONTRACT NO. 716 WITH RONALD N.S. HO & ASSOCIATES, INC..  
 JOB NO. 21-03, PAUA VALLEY WELL MCC REPLACEMENT, KEKAHA, KAUA'I, HAWAII**

**RECOMMENDATION:**

It is recommended that the Manager approve Change Order No. 5 for Contract No. 716 with Ronald N.S. Ho & Associates, Inc.

**FUNDING:**

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

**BACKGROUND:**

Contract NTP Date: November 3, 2021

Original Contract End Date: September 18, 2022

New Contract End Date: March 1, 2026

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

**4. CHANGE ORDER NO. 3 TO CONTRACT NO. 726 (HAWAIIAN DREDGING CONSTRUCTION COMPANY, INC.)  
 JOB NO. 09-01, WP2020 #K-01, K-12, KALĀHEO WATER SYSTEM IMPROVEMENTS; PACKAGE A-0.5 MG YAMADA RESERVOIR; PACKAGE B-0.1 MG CLEARWELL RESERVOIR; PACKAGE C-WATER MAIN INSTALLATION, KALĀHEO-KŌLOA WATER SYSTEM, KALĀHEO KAUA‘I, HAWAI‘I**

RECOMMENDATION:

It is recommended that the Manager approve Change Order No. 3, which is a no-cost time extension for Contract No. 726.

FUNDING:

Account No.	10-21-00-604-029		
Acct Description	WU/Capital Outlay-R&R/Kalaheo		
Funds Available	<i>Verified by WWC</i>		\$N/A
Contract No.	726		
Vendor	Hawaiian Dredging Construction Company, Inc.		
	Contract Amount	\$21,756,430.00	
	Change Order No. 1 (10/07/24)	\$10,544.34	
	Change Order No. 2 (10/17/24)	\$25,099.14	
	Total Funds Certified To Date	\$12,644,000.00	
Change Order No. 3:			
	Contract Time Extension	\$0.00	
	Total Change Order No. 3	\$0.00	
	Contract Amount To Date	\$21,792,073.48	

BACKGROUND:

Contract NTP Date: October 12, 2022

Original Contract End Date: March 29, 2025

New Contract End Date: June 4, 2025

The Kalāheo Water System Improvements project consists of the construction of a 0.5 million gallon storage tank, 0.1 million gallon storage tank and approximately 11,500 linear feet of ductile iron pipeline (12", 8", and 6"), water meter service connections, fire protection facilities and appurtenances, along with restoration and repaving work, in accordance with the contract documents requirements.

**5. FIRST AMENDMENT TO CONTRACT NO. 769 WITH COMPULINK MANAGEMENT CENTER, INC. DBA LASERFICHE IT-2025-01, DOCUMENT MANAGEMENT SOFTWARE, HOSTING, AND SUPPORT SERVICES**

RECOMMENDATION:

It is recommended that the Manager approve the First Amendment to Contract No. 769 with Compulink Management Center, Inc. dba Laserfiche.

FUNDING:

Account No.	10-31-10-550-000		
Acct Description	WU/Acctg/Admin/Subscription Based IT Arrangements (SBITAs)		
Funds Available	<i>Verified by WWC</i>		\$7,425.00
Contract No.	769		
Vendor	Compulink Management Center, Inc. dba Laserfiche		
	Contract Amount	\$131,498.55	
	5% Contingency	\$N/A	
	Total Funds Certified To Date	\$85,415.00	
<b>First Amendment:</b>			
	Additional templates for contract management process	\$7,425.00	
	Total Amendment	\$7,425.00	<\$7,425.00>
	Contract Amount To Date	\$138,923.55	

BACKGROUND:

Contract NTP Date: January 6, 2025  
 Original Contract End Date: January 5, 2028  
 New Contract End Date: N/A

During the requirements gathering sessions, it was identified that the contract management process requires additional templates to be auto-populated. The proposal has been received and found to be acceptable.

**6. CHANGE ORDER NO. 1 TO CONTRACT NO. 724 WITH KING WINDWARD NISSAN, LLC GS-2025-01, FURNISH AND DELIVER ONE (1) KING CAB/ACCESS CAB PICKUP TRUCK**

RECOMMENDATION:

It is recommended that the Manager approve Change Order No. 1 for a contract time extension of 90 calendar days to the contract time.

**FUNDING:**

Account No.	10-40-00-604-999		
Acct Description	WU/Ops/Capital Outlay-R&R/Misc. Capital Purchases (Line 4)		
Funds Available	Verified by WWC		\$N/A
Contract No.	771		
Vendor	King Windward Nissan, LLC		
	Contract Amount	\$36,906.02	
	5% Contingency	\$N/A	
	Total Funds Certified To Date	\$36,906.02	
Change Order No. 1:			
	Contract Time Extension of 90 calendar days	\$0.00	
	Total Change Order	\$0.00	
	Contract Amount To Date	\$36,906.02	

**BACKGROUND:**

Contract NTP Date: January 2, 2025  
 Original Contract End Date: May 1, 2025  
 New Contract End Date: July 30, 2025

This contract time extension is to add 90 calendar days to the contract time, due to unexpected delays in manufacturing outside of the Contractors capability to control. The Department finds this request to be fair and reasonable.

**7. CONTRACT NO. 774, CHANGE ORDER NO. 1  
 JOB NO. 24-15, LIHUE ADMINISTRATIVE BUILDING FENCING**

**RECOMMENDATION:**

It is recommended that the Manager approve Change Order No. 1 for Contract No. 774 with Pacific Concrete Cutting & Coring, Inc.

**FUNDING:**

Account No.	10-20-00-605-178		
Acct Description	WU/Eng/Admin/Capital Outlay - Expansion		
Funds Available	Verified by WWC		\$4,369.94
Contract No.	774		
Vendor	Pacific Concrete Cutting & Coring, Inc.		
	Contract Amount	\$347,895.00	
	5% Contingency	N/A	

	Total Funds Certified To Date	\$347,895.00	
<b>Change Order No. 1:</b>			
	Switch gear modifications	\$4,369.94	
	Total Change Order	\$4,369.94	<\$4,369.94>
	Contract Amount To Date	\$352,264.94	

**BACKGROUND:**

Contract NTP Date: January 15, 2025  
 Original Contract End Date: July 13, 2025  
 New Contract End Date: July 23, 2025

Additional modifications are required at the existing electrical switchboard in order to install the new circuit breakers needed for the gate operator equipment.

**CONVEYANCE OF WATER FACILITIES NONE**