Board of Water Supply
City and County of Honolulu

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2016 and 2015

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

TABLE OF CONTENTS

INTRODUCTION

Fiscal Year Ended June 30, 2016

The Board of Water Supply of the City and County of Honolulu (BWS) is pleased to present its Annual Financial Report for Fiscal Year 2016. This introduction provides a brief overview of the mission, organization, and operations of the BWS. The following management's discussion and analysis is intended to provide the reader with an easily understandable analysis of the BWS's financial performance and all aspects of its financial position. Financial statements presenting the financial position and results of operations of the BWS is in conformity with accounting principles generally accepted in the United States of America, accompanied by the independent auditor's report, follows the management's discussion and analysis.

HISTORY OF THE BOARD OF WATER SUPPLY

The BWS was created in 1929 by the Territorial Legislature in response to public outcry for a truly effective water management system that was above politics. The 1929 Legislature passed Act 96 to create and define the powers and duties of the Honolulu Board of Water Supply. Although it remained as a department of the City and County of Honolulu, the BWS was designed to be a semi-autonomous and self-supporting agency with the authority to charge for water usage to support its capital improvement and operating expenses and set long-term plans for Oahu's water future.

POWERS, DUTIES, AND FUNCTIONS

The BWS manages Oahu's municipal water resources and distribution system, providing residents with a safe, dependable, and affordable drinking water supply.

The BWS is the largest municipal water utility in the state of Hawaii. In Fiscal Year 2016, the BWS delivered potable and non-potable water to approximately one million customers on Oahu. The BWS carefully and proactively manages and invests in its intricate system, consisting of 94 active potable water sources, 171 reservoirs, and nearly 2,100 miles of pipeline.

The BWS is a financially self-sufficient, semi-autonomous agency of the City and County of Honolulu. Its operations and projects are financed with revenues generated by water transmission and distribution fees. It receives no tax money from the city. The BWS also pursues federal and state grants to help subsidize BWS projects.

The BWS is governed by a Board of Directors (Board), consisting of seven members. Five members are appointed by the Mayor and are confirmed by the Honolulu City Council. The remaining two serve in their capacities as the Director of the State Department of Transportation, and the Director and Chief Engineer of the City's Department of Facility Maintenance. The Board appoints the BWS Manager and Chief Engineer to administer the department.

The BWS consists of the following 10 divisions: Capital Projects Division, Customer Care Division, Field Operations Division, Finance Division, Information Technology Division, Land Division, Office of the Manager and Chief Engineer, Water Quality Division, Water Resources Division, and Water System Operations Division.

Board of Water Supply
City and County of Honolulu
INTRODUCTION
Fiscal Year Ended June 30, 2016

MISSION

The BWS mission is to provide a safe, dependable, and affordable water supply now and into the future, focusing in three strategic areas: resource, operational, and financial sustainability.

- **Resource sustainability**. Protect and manage our groundwater supplies and watersheds through adaptive and integrated strategies.

- **Operational sustainability**. Foster a resilient and collaborative organization utilizing effective and proactive operational practices consistent with current industry standards.

- **Financial sustainability**. Implement sound fiscal strategies to finance our operating and capital needs to provide dependable and affordable water service.

ACCOMPLISHMENTS

BWS employees work diligently to provide safe, dependable, and affordable water service to customers by concentrating their efforts to achieve the BWS's strategic goals:

Resource Sustainability (Safe)

- The BWS conducted 17,046 chemical tests, 9,290 microbiological tests, and 9,873 chlorine residual and other quality tests on samples collected from its sources, distribution systems, and treatment facilities to ensure all water served is safe to drink. Chemical tests performed this fiscal year include monitoring BWS wells near the Navy Red Hill Bulk Fuel Facility in response to a fuel leak reported by the Navy in January 2014. BWS is conducting its own studies to assess the impact the leak may have on the groundwater aquifer.

- In June 2016, BWS completed its annual production and delivery of the Consumer Confidence Report (CCR), also known as the Water Quality Report, to all BWS customers. The report provides information on the quality of the water delivered from the BWS system and was mailed to all customers on record and is also available at www.boardofwatersupply.com. The department also placed ads in Honolulu newspapers, including various ethnic language publications, to inform community members of the distribution.

- Potable water demand continues its downward trend of approximately 9% from 1990 to 2016 due to advanced water conservation efforts, economic incentives from sewer and water rate increases, recycled water, public education, and leak detection and repair programs in the BWS water system.

- The North Shore Watershed Management Plan (WMP) has been completed and is expected for adoption in FY 2017. The WMPs for the Ewa and Central Oahu districts are on-going. These are long-range water resource protection and water use and development plans for the city that are concurrent with and support the City's Development and Sustainable Communities Plans for Oahu. The WMPs guide the BWS's long-range capital improvement program, ensuring that adequate natural and alternative water supplies are available to meet Oahu's future water growth.

- Recycled water is an important conservation strategy to reduce potable water consumption to extend our high-quality water supplies. Recycled water use from the Honouliuli Water Recycling Facility provides an alternative water supply in Ewa for irrigation and industrial purposes. Recycled water production from the BWS Honouliuli Water Recycling Facility averaged approximately eight million gallons per day. BWS is seeking State of Hawaii land to construct an elevated recycled water reservoir, which will increase recycled water use in Ewa.

- BWS staff held 26 outdoor water conservation classes at the Halawa Xeriscape Garden. These classes focused on reducing water use through efficient landscaping. In December 2015, the BWS launched a new "Seed of the Month" program -- in which visitors can pick up a free seedling or free seeds of an unthirsty plant -- to encourage residents to grow unthirsty plants.

- The BWS sponsored its 38th annual Water Conservation Week Poster Contest and the 8th annual Water Conservation Week Poetry Contest, receiving more than 1,500 posters and 450 poems from more than 60 Oahu schools, focused on the theme "Water Matters -- Conserve It." All winning entries will be featured in the 2017 Water Conservation Calendar scheduled for distribution in December 2016.

- The BWS started efforts to implement a pilot Water Conservation program, to begin in FY17, leveraging mobile app and web technologies to encourage water savings through targeted, direct customer engagements and the use of data analytics.

Operational Sustainability (Dependable)

- Preparing for our water future, the BWS has developed a long range Water Master Plan (WMP) which is a comprehensive evaluation of our water supplies, needs, and infrastructure over a 30-year period. It includes population and water use projections; an evaluation of the current system, including causes of water main breaks; and it also considers conservation, watershed management, recycled water and climate change adaptation. The WMP is scheduled for adoption in October 2016. The 30-year CIP will follow as well as the financial plan and water rate study thereafter. In April 2015, the BWS Board of Directors approved the formation of a Stakeholder Advisory Group (SAG) whose purpose is to provide important feedback on the BWS Water Master Plan (WMP), proposed rate study and other important initiatives such as water conservation, recycled water and watershed management. In May of 2016, we celebrated the one-year anniversary of the formation of the BWS Stakeholder Advisory Group. The group comprises nearly 30 highly respected local residents, civic organization leaders, and environmental and business professionals with a sustained interest in water issues, with representation covering all City Council districts. The SAG effort demonstrates BWS's commitment to increase our responsiveness and transparency of our communications and public engagement.

- The first class of trades apprentices for Plant Electrical/Electronic Equipment Repairer was hired in 2016. The five-year program provides classroom and on-the-job training for the electrical and mechanical skills needed to repair and maintain over 200 pump, treatment and emergency generator facilities across the island. This is the second apprenticeship program in the department -- the first is our long-standing and successful Pipefitter program.

- The BWS completed the upgrade of its Computerized Maintenance Management System to a vendor-supported version, and is planning additional user enhancements in FY17.

- BWS entered into a partnership with the Hawaii State Fusion Center (HSFC) to increase its threat awareness via interagency sharing of information not otherwise available through other means. This access to shared information from federal sources, as well as other HSFC partners (e.g. Hawaiian Electric Company), supports our Cyber Security Program and its focus on Improving Critical Infrastructure Security and Resilience.

- A major redesign of the decade-old BWS website was initiated in FY16 and will be completed in early FY17. The redesign will provide a more dynamic website, with a cleaner look, easier navigation, and platform independence – allowing for a better customer experience whether using a desktop/laptop, tablet or smartphone.

- Also planned for FY17, is the development of a new Customer Self-Service web portal, and an Interactive Voice Response (IVR) capability integrated with our Customer Care and Billing system. This will provide our customers the ability to initiate actions and interactions with the BWS, at their convenience, without having to call in and speak with a Customer Service Representative.

- BWS staff responded to 287 main breaks, or about 14 breaks per 100 miles of pipeline.

- BWS staff helped protect Oahu's water resources and prevent damage to BWS infrastructure by handling 7,823 One Call locate requests and providing in-field support for 801 water line leaks and breaks. The BWS staff proactively investigated 27,576 meters to ensure accurate and timely billing and assisted 3,826 customers with concerns about bills reflecting high water consumption.

- BWS implemented upgraded service standards for the Customer Care Division. The standards cover methods of effective interaction with BWS customers, via telephone, to enhance customer service and experience. In keeping with the upgraded service standards, the BWS established two call center performance metrics measuring phone call abandon rates and average customer call wait time. In FY 2016, overall abandon rate was 11.4% and average customer wait time was two minutes or less. Additionally, the BWS established a direct customer care email to provide more efficient customer service.

- BWS staff assisted 161,034 customers: 148,291 (92.09%) by phone; 4,714 (2.93%) in-person; 6,936 (4.31%) via online forms; 263 (0.16%) through email, by mail and fax.

Financial Sustainability (Affordable)

- A total of over $38 million in construction contracts and over $12 million in professional services contracts were awarded as of June 30, 2016. The major programs include the following:

- **Water Main Replacement Program:** Aging and corroded water mains are systematically identified and replaced throughout the municipal water system to improve system reliability, reduce main breaks, and to ensure sufficient system pressure during periods of peak demand. In conjunction with main replacement projects, existing fire hydrants are replaced and new hydrants are installed to improve fire protection and ensure that current standards are met. Over $6.7 million in water main construction projects were awarded by the BWS. Once completed, these projects will improve the water systems in the Kaneohe and Waianae areas and add fire hydrant installations at various locations. Design contracts were awarded for water main replacements in Kalihi, Keolu Hills, Lanakila, Makakilo, Moanalua, Pauoa, Pearl City, Waiau and Waipio.

- **Water Facility Improvement Program:** Identification and improvements of deficiencies to the appearance and integrity of aging BWS water facilities continues. These facilities include water reservoirs, wells and booster stations, and administrative offices belonging to the department. New construction contracts were awarded to repair, renovate, repaint and/or reroof the Beretania Complex, Hawaii Loa Booster No. 2, Heeia Corporation Yard, Kailua Heights Booster, Kalihi Corporation Yard, Kalihi Tunnel, Kawela 228 Reservoir, and Waimanalo Booster. New design contracts were awarded for facility improvements at Kalihi 614 Reservoir, Niu Valley Highlands 297 Reservoir, Waialae Iki 180 Reservoir, Waianae Plantation Tunnels, Waimanalo 230 Reservoir, and security fencing at various locations.

- **Mechanical and Electrical Renovation Projects:** Renovation projects ensure the dependable service and operational efficiency of the BWS's pump and booster stations. Construction contracts were awarded for the renovation of the mechanical and/or electrical systems at the Barbers Point Line Booster, Halawa Shaft, Kalihi Pump Station, Kalihi Shaft, Kalihi Yard, Keanu Line Booster, Kunia Wells I, Lualualei Line Booster, Makaha Wells II, and Waipio Heights Wells III. Design contracts were awarded for renovation work at Hoaeae Wells, Kamaile Wells, Mililani 994 Booster Stations, and Mililani Wells.

- In March 2016, BWS entered into a 20-year, $33 million Energy Savings Performance Contract (ESPC) with NORESCO LLC. The partnership allows BWS to implement comprehensive energy efficiency, renewable energy, and operational improvements which guarantees enough energy savings over the next 20 years to pay for the contract. The project is financed by a loan from the Drinking Water State Revolving Fund, managed by the State of Hawaii Department of Health.

- BWS staff received mail-in payments via lockbox, which continued to be the most popular method of payment for BWS customers, with 37% using the service, down 4% from last fiscal year. Automatic bill payments account for 30% of the BWS’ total bill collections. Credit card payments account for 14% of payments, a 3% increase over last fiscal year. Of these credit card payments, 11% were completed online while 3% were processed by phone or over the counter. Payments made at satellite city hall locations are at 3%, a decrease of 1%, and walk-in customers remain steady at 3%.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Board of Water Supply
City and County of Honolulu

Report on the Financial Statements

We have audited the accompanying financial statements of the Board of Water Supply (the "BWS"), a component unit of the City and County of Honolulu (the "City"), as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the BWS's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BWS as of June 30, 2016, and the changes in its 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.

Emphasis of Matter

As discussed in Note B, the financial statements of the BWS are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City that is attributable to the transactions of the BWS. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Adjustment to Prior Period Financial Statements

The basic financial statements of the BWS as of June 30, 2015, were audited by other auditors whose report dated December 28, 2015, expressed an unmodified opinion on those statements. As discussed in Note P to the financial statements, the BWS has restated its 2015 financial statements during the current year to correct certain misstatements. The other auditors reported on the 2015 financial statements before the restatement in accordance with accounting principles generally accepted in the United States of America.

As part of our audit of the 2016 financial statements, we also audited the adjustments described in Note P that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the BWS other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 17 and the schedules of proportionate share of the net pension liability, contributions, and funding progress on pages 54 to 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BWS's basic financial statements. The introductory section and schedules of bonds payable and net revenue requirement are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of bonds payable and net revenue requirement are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 auditing standards generally accepted in the United States of America. In our opinion, the schedules of bonds payable and net revenue requirement are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of the BWS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BWS's internal control over financial reporting and compliance.

N + K CPAs, INC.

Honolulu, Hawaii
December 20, 2016

This section presents management's discussion and analysis of the BWS's financial condition and activities for the fiscal year ended June 30, 2016. This information should be read in conjunction with the financial statements.

Financial Highlights

The BWS implemented the fifth of five scheduled rate increases in July 2015 to meet the rising costs of delivering water to customers and to continue its infrastructure repair and replacement programs. Water rates increased by approximately 9.65%, which equates to more than $5 of monthly water charges for an average single-family residential customer effective July 1, 2015.

The BWS still maintains a relatively strong financial performance with a manageable capital program. Meanwhile, management continues to carefully evaluate the BWS's finances to ensure optimum performance. In addition to meeting all debt covenants, outstanding debt and cash reserves were kept at levels appropriate for maintaining favorable bond ratings. Key financial highlights are listed below:

- Net position increased $72.9 million in fiscal year 2016 compared to the $48.9 million increase in fiscal year 2015.

- Total assets were $1.6 billion and $1.5 billion in fiscal year 2016 and 2015, respectively, which exceeded liabilities by $1.0 billion at June 30, 2016 and 2015.

- The BWS's unrestricted current assets at June 30, 2016 were 4.0 times its related current liabilities compared to 4.3 times at June 30, 2015.

- The BWS's debt to equity ratio was 28.2% and 30.6% at June 30, 2016 and 2015, respectively, indicating the continuance of capacity to issue additional debt.

Overview of Financial Report

The BWS is a semi-autonomous agency of the City. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

Management's discussion and analysis ("MD&A") represents management's analysis and comments on the BWS's financial condition and performance. Summary financial data, key financial and operational indicators used in the BWS's annual report, budget, bond resolutions, and other management tools were used for this analysis.

The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows, and notes to the financial statements. The statements of net position present the resources and obligations of the BWS at June 30, 2016 and 2015. The statements of revenues, expenses and changes in net position presents the changes in net position for the fiscal years then ended, and the resultant ending net position balances.

The statements of cash flows present changes in cash and cash equivalents (short-term investments with original maturities of three months or less from the date of acquisition), resulting from operating, investing, capital and related financing activities, and non-capital financing activities.

Results of Operations

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Amounts in thousands)

	2016	2015 (as restated)	% Change
Operating revenues	$ 238,696	$ 216,578	10.2%
Operating expenses			
Administrative and general	61,626	58,385	5.6%
Depreciation	45,581	45,286	0.7%
Power and pumping	30,190	35,478	-14.9%
Other operating expenses	46,315	44,384	4.4%
Total operating expenses	183,712	183,533	0.1%
Operating income	54,984	33,045	66.4%
Nonoperating revenues (expenses)			
Interest income	4,151	3,088	34.4%
Interest expense	(7,821)	(6,912)	13.2%
Others	2,672	(242)	-1,204.1%
Total nonoperating expenses	(998)	(4,066)	-75.5%
Contributions in aid of construction	18,916	19,917	-5.0%
Change in net position	$ 72,902	$ 48,896	

The increase in net position for the year ended June 30, 2016 was $72.9 million, compared to an increase of $48.9 million for the year ended June 30, 2015.

Operating revenues for the year ended June 30, 2016 totaled $238.7 million, an increase of $22.1 million or 10.2% from the year ended June 30, 2015 revenues, due to water rate increases that were implemented on July 1, 2015. Operating revenues for the year ended June 30, 2015 totaled $216.6 million, an increase of $21.6 million or 11.1% from the year ended June 30, 2014 revenues, due to water rate increases that were implemented on July 1, 2014.

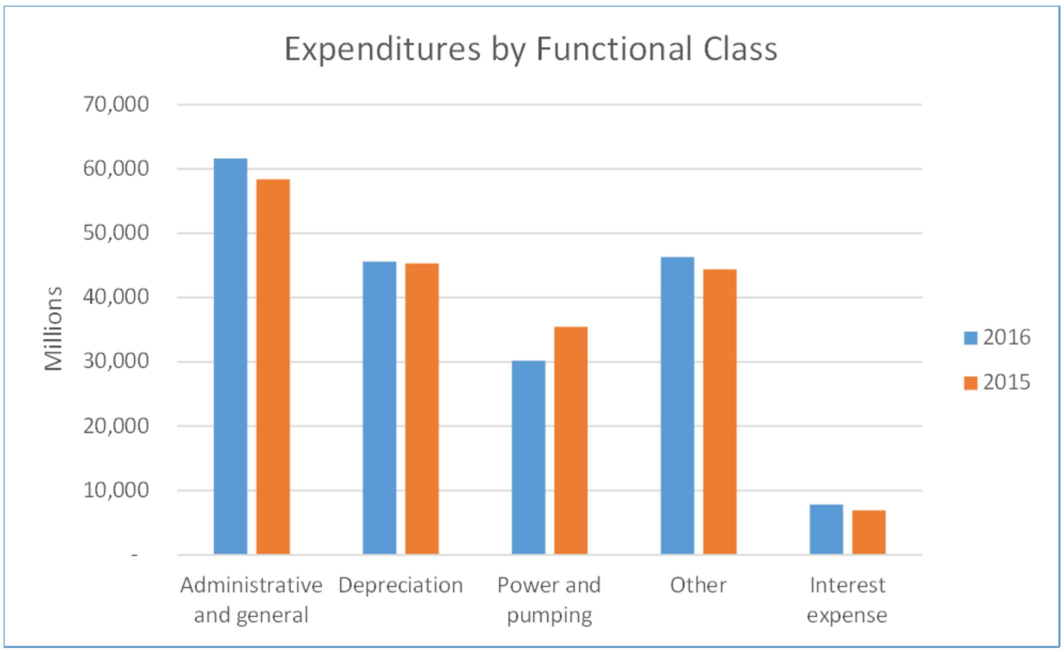
Total operating expenses increased slightly by $0.2 million and $4.0 million in fiscal years 2016 and 2015, respectively. Factors contributing to this change are explained below:

- Administrative and general expenses increased by $3.2 million in fiscal year 2016, mainly due to increases in salaries, pension and supplies. Administrative and general expenses increased by $9.8 million in fiscal year 2015, mainly due to increases in salaries, retirement health fund benefits, and other contractual services.

- Power and pumping expenses decreased by $5.3 million in fiscal year 2016. This was primarily due to a decrease in electricity costs. Power and pumping expenses decreased slightly by $0.1 million during fiscal year 2015.

- Other operating expenses increased $1.9 million during fiscal year 2016, mainly due to an increase in transmission and distribution. Other operating expenses decreased by $5.1 million during fiscal year 2015, mainly due to a decrease in water treatment maintenance and customer accounting and collection.

For the year ended June 30, 2016, net nonoperating revenues (expenses) increased by $3.1 million, due primarily to an increase in realized and unrealized gain on investments. Nonoperating expenses decreased slightly by $0.6 million for the year ended June 30, 2015.



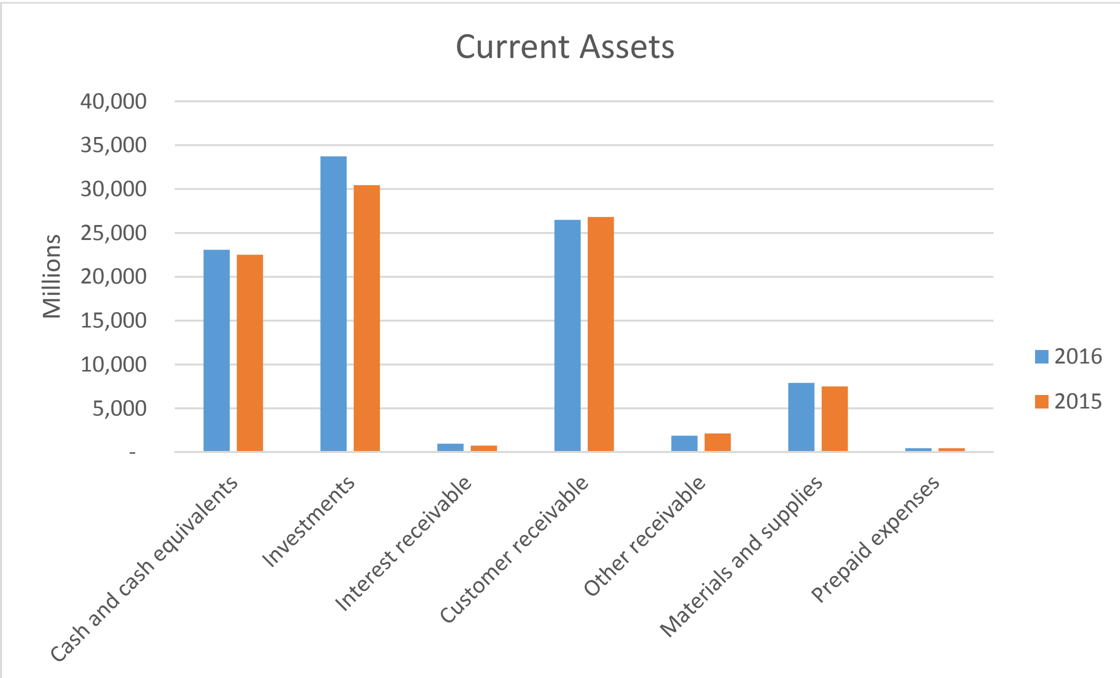
Contributions in aid of construction result from water system facilities charges that are levied against all new developments and residential properties requiring water from the BWS's systems, except those developments that have paid for and installed a complete water system, including sources, transmission, and daily storage facilities. In addition, contributions of capital assets from governmental agencies, developers and customers are recorded as contributions in aid of construction at their cost. The BWS realized contributions in aid of construction of $18.9 million in fiscal year 2016 compared to $19.9 million in fiscal year 2015. The decrease in contributions in aid of construction of $1.0 million was due to a decrease in projects completed by governmental funds of $4.2 million, offset by an increase in the Water Service Facilities Charge revenue ("WSFC") and private development contributions of $3.2 million. During the year ended June 30, 2016, the major developments completed were Makakilo C &D, Phase 2 and Urban Core 3 Roads.

Financial Condition

CONDENSED STATEMENTS OF NET POSITION
(Amounts in thousands)

	2016	2015 (as restated)	% Change
Current assets	$ 94,517	$ 90,657	4.3%
Restricted assets	47,768	46,061	3.7%
Investments	260,656	199,370	30.7%
Capital assets, net	1,121,711	1,112,393	0.8%
Other assets	12,193	9,270	31.5%
Total assets	1,536,845	1,457,751	5.4%
Deferred outflows of resources	39,868	38,473	3.6%
Total assets and deferred outflows of resources	$ 1,576,713	$ 1,496,224	5.4%
Current liabilities	$ 23,921	$ 21,198	12.8%
Payable from restricted assets	20,467	19,449	5.2%
Bonds payable, noncurrent	244,799	254,646	-3.9%
Net pension liability	81,526	73,142	11.5%
Other liabilities	73,975	65,240	13.4%
Total liabilities	444,688	433,675	2.5%
Deferred inflows of resources	5,063	8,489	-40.4%
Net position			
Net investment in capital assets	839,033	825,751	1.6%
Restricted for capital activity and debt service	24,292	23,610	2.9%
Unrestricted	263,637	204,699	28.8%
Total net position	1,126,962	1,054,060	6.9%
Total liabilities, deferred inflows of resources and net position	$ 1,576,713	$ 1,496,224	5.4%

The BWS's unrestricted current assets were 4.0 and 4.3 times its related current liabilities, payable from current assets, as of June 30, 2016 and 2015, respectively. The ratio decrease at June 30, 2016 was due to an increase in accounts payable and contracts payable. The ratio increase at June 30, 2015 was due to an increase in cash, short-term investments, and customer receivables.



As of June 30, 2016 and 2015, capital assets, net increased by $9.3 million and decreased $8.1 million, respectively. The increase in fiscal year 2016 was primarily due to the completion of various distributions mains projects and additions to construction work in progress, offset by dispositions and depreciation charges. The decrease in fiscal year 2015 was due to construction work in progress charge-offs and depreciation charges exceeding acquisitions.

As of June 30, 2016, current liabilities payable from current assets increased by $2.7 million or 12.8%. This increase is primarily due to the timing of payments on the BWS's trade accounts payable.

Other liabilities and payables from restricted assets increased by $9.8 million during fiscal year 2016. The increase is primarily due to projects utilizing financing from the state revolving fund loan program.

The BWS's noncurrent bonds payable decreased by $9.8 million and $21.0 million as of June 30, 2016 and 2015, respectively. The decrease at June 30, 2016 was due to the Series 2006A and 2006B bonds maturing on July 1, 2016. The decrease at June 30, 2015 was due to a partial refunding of revenue bond Series 2006A and 2006B.

Net position increased by $72.9 million and $48.9 million as of June 30, 2016 and 2015, respectively. The increase in fiscal year 2016 was primarily due to an increase in operating revenue. The increase in fiscal year 2015 was primarily due to an increase in operating revenue and contributions in aid of construction.

Capital Assets and Long-Term Debt

During fiscal years 2016 and 2015, the BWS capitalized $32.6 million and $53.5 million, respectively, to its utility plant in service. Major assets added in fiscal year 2016 were Kamehameha Highway 16" and 8" Mains (Heeia), $6.8 million; Kona Street 8" Main, $3.3 million; Makakilo C & D, Phase 2, $3.0 million; Urban Core 3 Roads, $2.8 million; Woodlawn Water System Improvements, Part II, $2.3 million; and Ewa Beach Water System Improvements, Part II, $1.7 million.

The BWS issues long-term bonds to finance part of its capital improvement program. The BWS's debt to equity ratio has remained fairly constant at 28.2%, 30.6% and 28.7% for fiscal years 2016, 2015 and 2014, respectively.

All outstanding bonds have been assigned underlying ratings of Aa2 from Moody's Investors Service and AA+ from Fitch Ratings.

Rate Covenant

The BWS is required under its bond indenture, among other things, to fix, charge and collect such rates and other charges in each fiscal year to meet the net revenue requirement for such fiscal year. The net revenue requirement is the greater of 1) the sum of the aggregate debt service and all deposits required by bond resolution to be made, or 2) 1.20 times the aggregate debt service. The BWS met the net revenue requirements for the fiscal years ended June 30, 2016 and 2015.

Request for Information

This financial report is designed to provide a general overview of the BWS's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Water Supply, City and County of Honolulu, 630 S. Beretania Street, Honolulu, Hawaii 96813.

Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	2016	2015 (as restated)
ASSETS		
Current assets		
Cash and cash equivalents	$ 23,084,857	$ 22,518,020
Investments	33,721,976	30,454,513
Interest receivable	969,013	755,973
Customer receivables		
Billed, less allowances for uncollectible accounts of $2,615,737 and $2,459,554 in 2016 and 2015	14,188,771	15,294,688
Unbilled	12,299,162	11,519,361
Other receivables, less allowances for uncollectible accounts of $510,868 in 2016 and 2015	1,891,233	2,135,259
Materials and supplies	7,900,769	7,510,010
Prepaid expenses	461,200	468,848
Total current assets	94,516,981	90,656,672
Restricted assets		
Cash and cash equivalents	14,571,741	16,502,337
Investments	33,195,912	29,558,634
Total restricted assets	47,767,653	46,060,971
Investments	260,655,703	199,369,752
Capital assets		
Infrastructure	1,469,794,915	1,450,128,280
Building and improvements	164,492,090	162,673,567
Equipment and machinery	305,454,875	304,512,242
	1,939,741,880	1,917,314,089
Less accumulated depreciation	(937,722,307)	(900,416,227)
	1,002,019,573	1,016,897,862
Land	32,373,064	32,373,064
Construction work in progress	87,318,572	63,122,418
Net capital assets	1,121,711,209	1,112,393,344
Other postemployment benefits asset	12,162,155	9,216,616
Other assets	31,370	54,120
Total other assets	12,193,525	9,270,736
Total assets	1,536,845,071	1,457,751,475
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt	20,112,402	21,699,926
Deferred outflows of resources related to pensions	19,755,920	16,772,673
Total deferred outflows of resources	39,868,322	38,472,599
Total assets and deferred outflows of resources	$ 1,576,713,393	$ 1,496,224,074

See accompanying notes to financial statements.

Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET POSITION (Continued)
June 30, 2016 and 2015

	2016	2015 (as restated)
LIABILITIES		
Current liabilities		
Payable from current assets		
Accounts payable	$ 11,465,798	$ 9,376,063
Contracts payable, including retainages	6,389,575	4,948,876
Accrued vacation, current portion	2,492,417	2,761,628
Accrued workers' compensation, current portion	916,000	830,000
Other	2,657,135	3,281,623
Total current liabilities	23,920,925	21,198,190
Payable from restricted assets		
Contracts payable, including retainages	3,007,142	2,621,828
Accrued interest payable	5,113,740	5,269,156
Bonds payable, current portion	8,135,000	7,810,000
Notes payable, current portion	4,211,328	3,748,230
Total payable from restricted assets	20,467,210	19,449,214
Other liabilities		
Customer advances	3,335,490	1,693,846
Accrued vacation, noncurrent portion	4,302,997	3,946,481
Accrued workers' compensation	1,880,735	1,741,877
Notes payable, noncurrent portion	61,000,319	56,697,967
Accrued arbitrage rebate	--	65,888
Other	3,455,480	1,094,266
Total other liabilities	73,975,021	65,240,325
Bonds payable, noncurrent	244,798,748	254,646,203
Net pension liability	81,526,553	73,141,824
Total liabilities	444,688,457	433,675,756
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	5,063,424	8,488,509
Total deferred inflows of resources	5,063,424	8,488,509
NET POSITION		
Net investment in capital assets	839,032,962	825,751,100
Restricted for capital activity and debt service	24,292,025	23,609,757
Unrestricted	263,636,525	204,698,952
Total net position	1,126,961,512	1,054,059,809
Total liabilities, deferred inflows of resources and net position	$ 1,576,713,393	$ 1,496,224,074

See accompanying notes to financial statements.

Board of Water Supply
City and County of Honolulu
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years Ended June 30, 2016 and 2015

	2016	2015 (as restated)
OPERATING REVENUES		
Water sales	$ 234,725,808	$ 212,486,218
Other, principally contract and service fees	3,970,520	4,091,962
Total operating revenues	238,696,328	216,578,180
OPERATING EXPENSES		
Administrative and general	61,626,128	58,384,569
Depreciation	45,581,460	45,286,091
Power and pumping	30,189,514	35,478,158
Transmission and distribution	20,745,074	16,942,891
Maintenance	12,440,083	12,338,299
Customers' accounting and collection	5,249,768	6,566,458
Water reclamation	4,553,447	5,203,162
Central administrative services expense fees	3,300,000	3,300,000
Source of supply	27,037	33,468
Total operating expenses	183,712,511	183,533,096
Operating income	54,983,817	33,045,084
NONOPERATING REVENUES (EXPENSES)		
Interest income	4,150,911	3,088,165
Interest expense, net of interest capitalized and amortization of bond premiums of $3,750,860 and $2,023,874 in 2016 and 2015	(7,821,072)	(6,912,365)
Loss from disposal of capital assets	(297,165)	(305,516)
Realized and unrealized gain (loss) on investments	2,662,097	(566,277)
Other	307,227	629,544
Total nonoperating expenses	(998,002)	(4,066,449)
CONTRIBUTIONS IN AID OF CONSTRUCTION	18,915,888	19,917,178
Change in net position	72,901,703	48,895,813
NET POSITION		
Beginning of year	1,054,059,809	1,005,163,996
End of year	$ 1,126,961,512	$ 1,054,059,809

See accompanying notes to financial statements.

Board of Water Supply
City and County of Honolulu
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 239,740,965	$ 212,362,274
Payments to suppliers for goods and services	(76,916,714)	(86,387,085)
Payments to employees for services	(56,102,891)	(50,218,007)
Other operating revenue (expense)	(41,416)	629,544
Net cash provided by operating activities	106,679,944	76,386,726
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(46,046,346)	(30,600,185)
Customer payments for capital projects	12,678,171	10,422,675
Principal paid on bonds	(7,810,000)	(34,060,911)
Interest paid on bonds	(9,913,722)	(8,980,725)
Proceeds from notes payable	9,494,429	41,648,721
Interest paid on notes payable	(203,353)	(106,923)
Principal paid on notes payable	(3,978,979)	(2,653,956)
Net cash used in capital and related financing activities	(45,779,800)	(24,331,304)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(149,139,191)	(194,511,840)
Proceeds from maturity of investments	83,610,596	151,078,905
Interest on investments	3,264,692	2,882,697
Net cash used in investing activities	(62,263,903)	(40,550,238)
Net increase (decrease) in cash and cash equivalents	(1,363,759)	11,505,184
CASH AND CASH EQUIVALENTS		
Beginning of year	39,020,357	27,515,173
End of year	$ 37,656,598	$ 39,020,357
Reconciliation of cash and cash equivalents to the statement of net position		
Unrestricted	$ 23,084,857	$ 22,518,020
Restricted	14,571,741	16,502,337
	$ 37,656,598	$ 39,020,357

See accompanying notes to financial statements.

Board of Water Supply
City and County of Honolulu
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 54,983,817	$ 33,045,084
Adjustments to reconcile operating income to net cash		
provided by operating activities:		
Depreciation	47,165,935	46,826,484
Net pension expense	--	2,416,094
Provision for doubtful accounts	585,825	480,866
Other revenues	307,227	629,544
Change in assets, deferred outflows of resources,		
liabilities and deferred inflows of resources:		
Customer receivables	(259,709)	(6,250,350)
Materials and supplies	(390,759)	(2,221,438)
Other receivables	851,317	(233,060)
Prepaid expenses and other	7,648	(84,276)
Other postemployment benefits	(2,945,539)	(2,175,399)
Deferred outflows of resources related to pensions	(2,983,246)	--
Accounts and contracts payable	2,348,895	474,131
Customer advances	--	764,114
Accrued vacation	87,305	36,821
Accrued workers' compensation	224,858	520,351
Net pension liability	8,384,729	--
Other liabilities	1,736,726	2,157,760
Deferred inflows of resources	(3,425,085)	--
Net cash provided by operating activities	$ 106,679,944	$ 76,386,726
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL		
AND RELATED FINANCING ACTIVITIES		
Contributions of capital assets from government agencies,		
developers and customers that are recorded as		
contributions in aid of construction, as restated	$ 7,969,129	$ 9,494,503
Amortization of other costs	$ 22,750	$ 25,417
Amortization of bond premium, net	$ 1,712,455	$ 2,829,599
Amortization of deferred loss on refunding, as restated	$ 1,587,523	$ 2,471,640
Bond proceeds deposited directly with escrow agent		
for refunding of previously issued debt	$ --	$ 183,212,091
Bond proceeds used for bond issuance costs	$ --	$ 835,581
Forgiveness of principal due on notes payable, as restated	$ 750,000	$ 1,567,000

See accompanying notes to financial statements.

NOTE A - OPERATIONS

The Revised Charter of the City and County of Honolulu provides for the operation of the Board of Water Supply (the "BWS") as a semi-autonomous body of the City and County of Honolulu government (the "City"). The BWS has full and complete authority to manage, control and operate the City's water system and related properties.

Article VII of the Revised Charter of the City and County of Honolulu states that the BWS's seven-member Board of Directors has the authority to establish and adjust water rates and charges so that the revenues derived shall be sufficient to make the BWS self-supporting. The Board of Directors is required to follow certain procedures that include holding public hearings before implementing changes in the water rate schedules.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) ***Financial Statement Presentation*** - The BWS is a component unit of the City (the "primary government"). The accompanying financial statements present only the financial position and activities of the BWS and do not purport to, and do not present the financial position of the City, the changes in its financial position, or its cash flows.

(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, 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 carrying amount of capital assets, valuation allowances for receivables, accrued workers' compensation, and pensions and postretirement benefits. Actual results could differ from those estimates.

(4) ***Cash and Cash Equivalents*** - The BWS considers all cash on hand, demand deposits, and short-term investments (including restricted assets) with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

(5) ***Investments*** - Investments are measured at fair value. 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. The cost of securities sold is generally determined by the weighted average method.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) ***Receivables*** **-** Receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the BWS's best estimate of the amount of probable credit losses in the BWS's existing receivables. The BWS 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.

(7) ***Materials and Supplies*** **-** Materials and supplies are stated at weighted average cost (which approximates the first-in, first-out method). The cost of materials and supplies are recorded as expenses when consumed rather than when purchased.

(8) ***Restricted Assets*** **-** Restricted assets are comprised of cash and cash equivalents and investments maintained in accordance with bond resolutions and other agreements for the purpose of funding certain debt service payments, construction, improvements, and renewal and replacements of the water system. When both restricted and unrestricted assets are available for use, it is the BWS's policy to use restricted assets first, then unrestricted assets as they are needed. Restricted assets comprise the following:

- The debt service account accumulates transfers from the operating account throughout the fiscal year to make principal and interest payments on the outstanding water revenue bonds and other notes payable.

- The renewal and replacement account and the reserve release fund provides funding for improvements, reconstruction, emergency or extraordinary repairs, and renewals or replacements of the water system.

- The improvement account holds the proceeds of the series bond issuance pursuant to the series resolution or series certificates. These proceeds are only applied to costs specified in the applicable series resolution or series certificates.

- The extramural account holds reimbursements received from any governmental agency or private entity, pursuant to negotiated agreements, contracts and/or grants.

(9) ***Capital Assets*** **-** Capital assets include those assets in excess of $5,000 for buildings, structures, infrastructure, and equipment and machinery with a useful life of more than one year. Capital assets are stated at cost and include contributions by governmental agencies, private subdividers and customers at their cost or estimated cost of new construction.

Major replacements, renewals and betterments are capitalized. Interest costs are capitalized during the construction period of major capital projects. Interest costs incurred in the fiscal years ended June 30, 2016 and 2015 totaled $11,572,000 and

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

$8,936,000, respectively. Capitalized interest costs approximated $2,038,405 and $716,000 for the fiscal years ended June 30, 2016 and 2015, respectively. The BWS also capitalizes certain indirect costs to construction work based upon actual construction direct labor. Maintenance, repairs and replacements that do not improve or extend the lives of the assets are charged to expense.

Assets are depreciated over the individual assets' estimated useful lives using the straight-line method. Depreciation on both purchased and contributed assets is charged against operations.

The estimated useful lives of capital assets are as follows:

Source of supply plant	20 to 100 years
Pumping plant	20 to 50 years
Water treatment plant	20 to 30 years
Transmission and distribution plant	13-1/3 to 50 years
General plant	5 to 50 years

Gains or losses resulting from the sale, retirement or disposal of capital assets in service are charged or credited to operations.

(10) ***Bond Issue Prepaid Insurance Costs, Original Issue Discount or Premium and Deferred Loss on Refunding of Debt*** - Bond issue costs are expensed when incurred, except for prepaid insurance, which are amortized over the life of the respective issue on a straight-line basis. Bond issue prepaid insurance costs are presented as other assets in the statements of net position.

Original issue discounts or premiums are amortized using the straight-line method over the terms of the respective issues. Original issue discounts or premiums are offset against or added to bonds payable in the statements of net position.

Deferred loss on refunding of debt is amortized using the straight-line method over the remaining life of the refunded debt or the life of the new debt, whichever is shorter. The deferred loss on refunding of debt is presented as deferred outflows of resources in the statements of net position.

(11) ***Accrued Vacation and Compensatory Pay*** - Vacation is earned at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days as of the end of the calendar year and are convertible to pay upon termination. The BWS accrues a liability for compensated absences and additional amounts for certain salary-related payments including payroll taxes and fringe benefits.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2016 and 2015, accumulated sick leave aggregated approximately $19,163,000 and $18,310,000, respectively. Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 or more unused sick days is entitled to additional service credit in the State of Hawaii's Employees' Retirement System.

(12) ***Net Position*** - Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is classified in the following three components: net investment in capital assets, restricted for capital activity and debt service, and unrestricted net position. 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 is not included in the calculation of net investment in capital assets. Restricted for capital activity and debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations or enabling legislation. Unrestricted consists of the remaining balance not included in the above categories.

(13) ***Operating Revenues and Expenses*** - The BWS distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the BWS's principal ongoing water operations. The principal operating revenues are derived 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 nonoperating revenues and expenses.

(14) ***Revenue Recognition*** - Charges for water sales are based on usage. The BWS's policy is to bill customers on a cyclical monthly basis. The accrual for unbilled water revenues and related receivables reflected in the accompanying financial statements is based on estimated usage from the latest meter reading date to the end of the fiscal period.

(15) ***Contributions in Aid of Construction*** - Contributions in aid of construction represent cash or capital assets received by the BWS to aid in the construction of infrastructure assets. Contributions in aid of construction are recognized when they are accepted by the BWS and when all applicable eligibility requirements have been met.

(16) ***Water System Facilities Charge*** - A water system facilities charge is levied against all new developments and residential properties requiring water from the BWS's systems, except those developments that have paid for and installed a complete water system, including source, transmission and daily storage facilities. The amounts collected are initially recorded as customer advances and are recognized as contributions in aid of construction when water service is made available to the customer. The use of these funds is designated for the construction of water facilities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(17) ***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, employer and member contributions are recognized in the period in which the contributions are legally due and benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

(18) ***Deferred Compensation Plan*** - All full-time employees are eligible to participate in the City and County of Honolulu's Public Employees' Deferred Compensation Plan (the "Plan"), adopted pursuant to Internal Revenue Code Section 457. The Plan permits eligible employees to defer a portion of their salary until future years. The deferred compensation amounts are not available to employees until termination, retirement, death or unforeseeable emergency.

A trust fund was established to protect plan assets from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. Accordingly, the BWS has excluded the Plan's assets and liabilities from the financial statements because the BWS and the City do not have significant administrative involvement in the Plan or perform the investment function for the Plan.

(19) ***Risk Management*** - The BWS 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, and (5) employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

The ranges of insurance limits and deductibles are as follows:

Policy	Limits (Millions)	Deductibles
Property	$ 60	$ 50,000
Public entity liability	$ 15	$ 750,000
Excess workers' compensation	$ 25	$ 600,000
Employment practices	$ 5	$ 75,000
Storage tank liability	$ 2	$ 10,000
Pollution legal liability	$ 5	$ 250,000
Crime	$ 5	$ 25,000

There have been no significant reductions in insurance coverage's from the prior fiscal year.

(20) ***Reclassification*** - Certain balances in the prior year financial statements have been reclassified for comparative purposes to confirm with the current year presentation. Such reclassifications had no effect on the previously reported change in net position.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) ***New Accounting Pronouncements*** **-** The Government Accounting Standards Board (the "GASB") issued Statement No. 72, *Fair Value Measurement and Application*. The Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The Statement will also enhance fair value application guidance and disclosure. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Management has adopted the new standard as presented in the BWS's financial statements.

The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement establishes accounting and financial reporting requirements by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management has adopted the applicable requirements of the new standard as presented in the BWS's financial statements.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Statement will require the liability of employers for defined benefit OPEB to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. Management has not yet determined the effect this Statement will have on the BWS's financial statements, but anticipate that it will materially impact the BWS's financial statements.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement reduces the generally accepted accounting principles ("GAAP") to two categories of authoritative GAAP. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category includes GASB Implementation Guides, GASB Technical Bulletins, and guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. Management has adopted the applicable requirements of the new standard as presented in the BWS's financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB issued Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

NOTE C - CASH AND INVESTMENTS

Cash deposited with the City is maintained by the Department of Budget and Fiscal Services of the City. The City maintains a cash and investment pool that is used by all of the City's Funds and the BWS. The Hawaii Revised Statutes ("HRS") provide for the City's Director of Finance to deposit the cash with any national or state bank or federally insured financial institution authorized to do business in the State of Hawaii, provided that all deposits are fully insured or collateralized. The City's demand deposits are fully insured or collateralized with securities held by the City or its agents in the City's name. The HRS authorizes the BWS to invest, with certain restrictions, in obligations of the State of Hawaii or the United States, in federally insured savings accounts, time certificates of deposit, and bank repurchase agreements with federally insured financial institutions authorized to do business in the State of Hawaii. The BWS's portfolio is managed by various investment managers. These investments consist of U.S. government and government-sponsored enterprises securities.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the term of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses, the BWS invests operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Custodial Credit Risk - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2016, approximately $11,075,000 in cash and cash equivalents and all investments were held by two financial institutions in the State of Hawaii. All investment

NOTE C - CASH AND INVESTMENTS (Continued)

securities are registered in the name of the BWS and are not exposed to custodial credit risk. Cash and cash equivalents held by these financial institutions are uncollateralized, however, amounts in excess of depository insurance are covered by commercial insurance obtained by each financial institution designed to insure against losses resulting from errors and omissions or fraud.

Credit Risk and Concentration of Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. The BWS's concentration of credit risk related to investments in debt securities has been mitigated by limiting such investments to only debt obligations of the U.S. government and U.S. government-sponsored enterprises.

The historical cost and estimated fair value of investments at June 30, 2016 and 2015 consisted of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
U. S. Treasury obligations	$ 254,228,048	$ 257,167,987	$ 190,329,657	$ 190,187,641
U. S. government agencies	70,131,159	70,405,604	69,807,266	69,195,258
	$ 324,359,207	$ 327,573,591	$ 260,136,923	$ 259,382,899

At June 30, 2016, each investment had a credit quality rating of Aaa. The credit exposure as a percentage of total investments was as follows:

	Percent of Total	Fair Value
U. S. Treasury obligations	79%	$ 257,167,987
U. S. government agencies		
Federal National Mortgage Association	13%	43,052,108
Federal Home Loan Mortgage Corporation	5%	17,314,197
Federal Home Loan Bank	3%	10,039,299
	100%	$ 327,573,591

The fair value of investments at June 30, 2016 by contractual maturity is shown below:

		Investment Maturities (In Years)	
	Fair Value	Less Than 1	1 - 5
U. S. Treasury obligations	$ 257,167,987	$ 22,975,333	$ 234,192,654
U. S. government agencies	70,405,604	22,487,055	47,918,549
	$ 327,573,591	$ 45,462,388	$ 282,111,203

NOTE D - RESTRICTED ASSETS

At June 30, 2016 and 2015, the BWS's restricted assets were comprised of cash, cash equivalents and investments and were held for the following purposes:

	2016	2015
Construction, renewals and replacements	$ 5,927,984	$ 2,876,622
Debt service	41,839,669	43,184,349
	$ 47,767,653	$ 46,060,971

NOTE E - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for an asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a level 2 input must be observable for most of the full term of the asset or liability. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets,
- Quoted prices for identical or similar assets or liabilities in markets that are not active,
- Inputs other than quoted prices that are observable for the asset or liability,
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs are unobservable for an asset or liability.

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

U.S. Treasury obligations: Valued using quoted prices in active markets for identical assets.

NOTE E - FAIR VALUE MEASUREMENTS (Continued)

U.S. government agency obligations: Valued using quoted prices for identical or similar assets in markets that are not active.

The following table sets forth by level, within the fair value hierarchy, assets measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	Assets at Fair Value at June 30, 2016			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	$ 257,167,987	$ 257,167,987	$ --	$ --
U. S. government agencies	70,405,604	--	70,405,604	--
	$ 327,573,591	$ 257,167,987	$ 70,405,604	$ --

	Assets at Fair Value at June 30, 2015			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	$ 190,187,641	$ 190,187,641	$ --	$ --
U. S. government agencies	69,195,258	--	69,195,258	--
	$ 259,382,899	$ 190,187,641	$ 69,195,258	$ --

NOTE F - CAPITAL ASSETS

Capital assets activity during the fiscal years ended June 30, 2016 and 2015, were as follows:

	Balance July 1, 2015	Additions	Transfers	Retirements	Balance June 30, 2016
Depreciable assets					
Infrastructure	$ 1,450,128,280	$ 7,344,904	$ 13,125,939	$ (804,208)	$ 1,469,794,915
Building and improvements	162,673,567	--	1,847,678	(29,155)	164,492,090
Equipment and machinery	304,512,242	1,842,123	8,458,811	(9,358,301)	305,454,875
Total depreciable assets	1,917,314,089	9,187,027	23,432,428	(10,191,664)	1,939,741,880
Less: Accumulated depreciation	(900,416,227)	(47,165,935)	--	9,859,855	(937,722,307)
Total depreciable assets - net	1,016,897,862	(37,978,908)	23,432,428	(331,809)	1,002,019,573
Land	32,373,064	--	--	--	32,373,064
Construction work in progress	63,122,418	65,063,334	(40,867,180)	--	87,318,572
Net capital assets	$ 1,112,393,344	$ 27,084,426	$ (17,434,752)	$ (331,809)	$ 1,121,711,209

NOTE F - CAPITAL ASSETS (Continued)

	Balance July 1, 2014	Additions	Transfers	Retirements	Balance June 30, 2015
Depreciable assets					
Infrastructure	$ 1,425,668,553	$ 8,014,579	$ 17,236,120	$ (790,972)	$ 1,450,128,280
Building and improvements	157,657,127	--	5,074,540	(58,100)	162,673,567
Equipment and machinery	282,710,681	3,495,970	19,687,362	(1,381,771)	304,512,242
Total depreciable assets	1,866,036,361	11,510,549	41,998,022	(2,230,843)	1,917,314,089
Less: Accumulated depreciation	(855,482,565)	(46,826,484)	--	1,892,822	(900,416,227)
Total depreciable assets - net	1,010,553,796	(35,315,935)	41,998,022	(338,021)	1,016,897,862
Land	32,373,064	--	--	--	32,373,064
Construction work in progress	77,550,957	47,663,230	(62,091,769)	--	63,122,418
Net capital assets	$ 1,120,477,817	$ 12,347,295	$ (20,093,747)	$ (338,021)	$ 1,112,393,344

Depreciation charges allocated to various functions for the fiscal years ended June 30, 2016 and 2015 totaled $1,584,475 and $1,540,393, respectively.

NOTE G - BONDS PAYABLE

At June 30, 2016 and 2015, bonds payable consisted of the following:

	2016	2015
Water System Revenue Bonds, Series 2006A, with principal of $2,795,000 due July 1, 2016, with interest at 4.25%. These bonds were partially refunded by Series 2014A bonds.	$ 2,795,000	$ 5,475,000
Water System Revenue Bonds, Series 2006B, with principal of $3,605,000 due July 1, 2016, with interest at 5.00%. These bonds were partially refunded by Series 2014B bonds.	3,605,000	7,035,000
Water System Revenue Bonds, Series 2012A, annual principal due ranging from $940,000 to $8,535,000 through July 1, 2033, with interest ranging from 3.00% to 5.00%.	80,740,000	81,655,000
Water System Revenue Bonds, Series 2014A, annual principal due commencing from July 1, 2023, ranging from $410,000 to $9,205,000 through July 1, 2036, with interest ranging from 3.00% to 5.00%.	101,655,000	101,655,000
Balance forward	$ 188,795,000	$ 195,820,000

NOTE G - BONDS PAYABLE (Continued)

	2016	2015
Balance carried forward	$ 188,795,000	$ 195,820,000
Water System Revenue Bonds, Series 2014B, annual principal due ranging from $795,000 to to $7,395,000 through July 1, 2031, with interest ranging from 0.81% to 3.86%.	42,545,000	43,330,000
	231,340,000	239,150,000
Add: unamortized premium	21,593,748	23,306,203
	252,933,748	262,456,203
Less: current portion	8,135,000	7,810,000
Noncurrent portion	$ 244,798,748	$ 254,646,203

Principal and interest payments on water system revenue bonds are to be paid from the BWS's revenue. Water system revenue bonds are subject to redemption on and after specific dates prior to maturity at the option of the BWS. The redemption amount equals the outstanding principal amount plus accrued interest without premium on the date of redemption.

Bonds payable activity during 2016 and 2015, were as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Water System Revenue Bonds:					
Series 2006A	$ 5,475,000	$ --	$ (2,680,000)	$ 2,795,000	$ 2,795,000
Series 2006B	7,035,000	--	(3,430,000)	3,605,000	3,605,000
Series 2012A	81,655,000	--	(915,000)	80,740,000	940,000
Series 2014A	101,655,000	--	--	101,655,000	--
Series 2014B	43,330,000	--	(785,000)	42,545,000	795,000
	$ 239,150,000	$ --	$ (7,810,000)	$ 231,340,000	$ 8,135,000

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
Water System Revenue Bonds:					
Series 2004	$ 2,465,000	$ --	$ (2,465,000)	$ --	$ --
Series 2006A	155,730,000	--	(150,255,000)	5,475,000	2,680,000
Series 2006B	29,105,000	--	(22,070,000)	7,035,000	3,430,000
Series 2012A	82,545,000	--	(890,000)	81,655,000	915,000
Series 2014A	--	101,655,000	--	101,655,000	--
Series 2014B	--	43,330,000	--	43,330,000	785,000
	$ 269,845,000	$ 144,985,000	$ (175,680,000)	$ 239,150,000	$ 7,810,000

NOTE G - BONDS PAYABLE (Continued)

At June 30, 2016, future bond principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	$ 8,135,000	$ 9,589,000	$ 17,724,000
2018	8,365,000	9,358,000	17,723,000
2019	8,550,000	9,175,000	17,725,000
2020	8,820,000	8,902,000	17,722,000
2021	9,110,000	8,613,000	17,723,000
2022 - 2026	53,395,000	36,565,000	89,960,000
2027 - 2031	68,115,000	22,389,000	90,504,000
2032 - 2036	57,645,000	7,169,000	64,814,000
2037	9,205,000	184,000	9,389,000
Total	$ 231,340,000	$ 111,944,000	$ 343,284,000

In December 2014, the BWS issued $144,985,000 in water system revenue bonds which consisted of $101,655,000 of Series 2014A and $43,330,000 of Series 2014B bonds. The proceeds of the issuance and the proceeds from certain state revolving fund loans were used to advance refund a portion of the outstanding 2006A Series and 2006B Series bonds. Consequently, a portion of the 2006A Series and 2006B Series bonds were considered defeased and were removed from the BWS's financial statements in 2015. This refunding was undertaken to reduce total debt service payments by approximately $24,667,000 and resulted in an economic gain of approximately $19,182,000. At June 30, 2016 and 2015, defeased bonds totaled $174,515,000 and $178,630,000, respectively.

NOTE H - NOTES PAYABLE

At June 30, 2016 and 2015, notes payable consisted of the following:

	2016	2015
Notes payable to Department of Health		
Note payable in semi-annual installments of approximately $63,000, including interest at .10%, due June 2025.	$ 1,127,975	$ 1,196,442
Non-interest bearing note payable in semi-annual installments of approximately $75,000, due September 2025.	1,424,109	1,574,015
Balance forward	$ 2,552,084	$ 2,770,457

NOTE H - NOTES PAYABLE (Continued)

		2016		2015
Balance carried forward	$	2,552,084	$	2,770,457
Note payable in semi-annual installments of approximately $104,400, including interest at .31%, November 2025.		1,953,944		2,156,283
Note payable in semi-annual installments of approximately $328,700 including interest at .10%, due February 2026.		6,540,050		6,933,516
Note payable in semi-annual installments of approximately $10,200, including interest at .10%, due January 2027.		213,598		233,832
Note payable in semi-annual installments of approximately $70,200, including interest at .01%, due August 2027.		1,614,199		1,754,481
Note payable in semi-annual installments of approximately $32,500, including interest at .01%, due March 2028.		779,698		844,631
Note payable in semi-annual installments of approximately $49,700, including interest at .01%, due March 2028.		1,192,225		1,291,512
Note payable in semi-annual installments of approximately $36,100, including interest at .36%, due June 2028.		845,796		914,742
Note payable in semi-annual installments of approximately $30,400, including interest at 1.0%, due April 2033.		947,969		998,868
Note payable in semi-annual installments of approximately $66,100, including interest at 1.0%, due April 2033.		2,063,496		1,969,220
Note payable in semi-annual installments of approximately $73,200, including interest at .50%, due April 2033.		2,383,869		1,285,846
Balance forward	$	21,086,928	$	21,153,388

NOTE H - NOTES PAYABLE (Continued)

	2016	2015
Balance carried forward	$ 21,086,928	$ 21,153,388
Note payable in semi-annual installments of approximately $29,200, including interest at 1.0%, January 2034.	933,280	981,939
Non-interest bearing note payable in semi-annual installments of approximately $676,900, due April 2034.	24,370,071	25,723,964
Note payable in semi-annual installments of approximately $21,600, including interest .50%, due May 2034.	744,001	783,384
Note payable in semi-annual installments of approximately $97,100, including interest at 1.0%, due May 2034.	3,192,231	3,270,250
Note payable in semi-annual installments of approximately $109,200, including interest at .50%, due May 2034.	3,755,205	3,108,470
Note payable in semi-annual installments of approximately $88,700, including interest at .50%, due May 2034.	3,049,253	1,220,307
Non-interest bearing note payable in semi-annual installments of approximately $166,200, due November 2034.	6,150,200	2,725,436
Note payable in semi-annual installments of approximately $2,600, including interest at .50%, due November 2034.	91,091	--
Non-interest bearing note payable in semi-annual installments of approximately $13,400, due December 2037.	474,946	--
Balance forward	$ 63,847,206	$ 58,967,138

NOTE H - NOTES PAYABLE (Continued)

	2016	2015
Balance carried forward	$ 63,847,206	$ 58,967,138
Notes payable to other lenders		
Note payable in monthly installments of approximately $15,700, including interest at 5.0%, due September 2025	1,364,441	1,479,059
	65,211,647	60,446,197
Less current maturities	4,211,328	3,748,230
	$ 61,000,319	$ 56,697,967

The notes payable to the Department of Health are state revolving fund loans and are collateralized by net revenue of the BWS.

At June 30, 2016, future principal and interest payments for notes payable are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	$ 4,211,000	$ 200,000	$ 4,411,000
2018	4,260,000	191,000	4,451,000
2019	4,297,000	177,000	4,474,000
2020	4,311,000	162,000	4,473,000
2021	4,327,000	146,000	4,473,000
2022-2026	21,429,000	487,000	21,916,000
2027-2031	14,243,000	196,000	14,439,000
2032-2036	8,093,000	31,000	8,124,000
2037-2038	41,000	--	41,000
	$ 65,212,000	$ 1,590,000	$ 66,802,000

In July 2016, the BWS made a principal and interest prepayment of approximately $9,230,000 to the Department of Health for certain state revolving fund loans.

NOTE I - OTHER LONG-TERM LIABILITIES

The following is a summary of changes in other long-term liabilities for the fiscal years ended June 30, 2016 and 2015:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Customer advances	$ 1,693,846	$ 12,643,527	$ (11,001,883)	$ 3,335,490	$ --
Accrued vacation	6,708,109	2,579,722	(2,492,417)	6,795,414	2,492,417
Accrued workers' compensation	2,571,877	1,054,492	(829,634)	2,796,735	916,000
Accrued arbitrage rebate liability	65,888	--	(65,888)	--	--
Notes payable	60,446,197	9,494,429	(4,728,979)	65,211,647	4,211,328
Other	1,094,266	2,445,989	(84,775)	3,455,480	--
	$ 72,580,183	$ 28,218,159	$ (19,203,576)	$ 81,594,766	$ 7,619,745

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion
Customer advances	$ 929,732	$ 764,114	$ --	$ 1,693,846	$ --
Accrued vacation	6,671,288	2,798,449	(2,761,628)	6,708,109	2,761,628
Accrued workers' compensation	2,051,526	1,471,201	(950,850)	2,571,877	830,000
Accrued arbitrage rebate liability	65,888	--	--	65,888	--
Notes payable	23,018,432	41,648,721	(4,220,956)	60,446,197	3,748,230
Other	1,344,987	141,911	(392,632)	1,094,266	--
	$ 34,081,853	$ 46,824,396	$ (8,326,066)	$ 72,580,183	$ 7,339,858

NOTE J - NET POSITION

The BWS's net position consisted of the following as of June 30, 2016 and 2015:

	2016	2015
Net investment in capital assets		
Capital assets, net	$ 1,121,711,209	$ 1,112,393,344
Deferred loss on refunding	20,112,402	21,699,926
Less: noncurrent portion of water system revenue bonds payable	(244,798,748)	(254,646,203)
Less: noncurrent portion of notes payable	(61,000,319)	(56,697,967)
Unspent debt proceeds	3,008,418	3,002,000
	839,032,962	825,751,100
Restricted for capital activity and debt service		
Restricted cash and cash equivalents	14,571,741	16,502,337
Restricted investments	33,195,912	29,558,634
Less: unspent debt proceeds	(3,008,418)	(3,002,000)
Less: contracts payable, including retainages	(3,007,142)	(2,621,828)
Less: accrued interest payable	(5,113,740)	(5,269,156)
Less: bonds payable, current portion	(8,135,000)	(7,810,000)
Less: notes payable, current portion	(4,211,328)	(3,748,230)
	24,292,025	23,609,757
Unrestricted	263,636,525	204,698,952
	$ 1,126,961,512	$ 1,054,059,809

NOTE K - LEASES

The BWS leases space for its deep seawater cooling project on Oahu under an operating lease that extends through September 2025. The lease is subject to early cancellation contingent on mutual agreement between the BWS and the lessor.

The BWS also leases certain properties to other users, primarily utility and telecommunications companies, under multi-year license agreements. The terms of these agreements range from 5 to 30 years through December 2031. The agreements are generally based on fixed annual amounts, with provisions for increases.

The future minimum rental payments and revenue from these operating leases at June 30, 2016 were as follows:

Fiscal Year Ending June 30,	Future Minimum Rental Payments	Future Minimum Rental Revenue
2017	$ (159,000)	$ 202,000
2018	(159,000)	138,000
2019	(159,000)	115,000
2020	(159,000)	115,000
2021	(159,000)	115,000
2022-2026	(667,000)	507,000
2027-2031	--	500,000
	$ (1,462,000)	$ 1,692,000

NOTE L - RELATED PARTY TRANSACTIONS

The BWS has an agreement with the Department of Environmental Services, City and County of Honolulu to provide certain services relating to the billing and collection of sewer service charges. Fees related to these services were negotiated at approximately $3,738,000 and $3,257,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

The BWS has an agreement with the City to pay a central administrative services expense ("CASE") fee for treasury, personnel, purchasing and other services that the City provides to the BWS on an on-going basis. The BWS's Charter allows for CASE fees to the extent that it represents a reasonable charge for services necessary for the BWS to perform its duties. CASE fees totaled $3,300,000 for each the fiscal years ended June 30, 2016 and 2015.

Amounts due from the City totaled approximately $535,000 and $153,000, as of June 30, 2016 and 2015, respectively, and are included in other receivables.

The BWS has entered into agreements with the City for joint capital projects. Unexpended advanced funds totaled $826,000 at each of the fiscal years ended June 30, 2016 and 2015, and are included in other liabilities on the statement of net position.

NOTE M - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

The ERS is a cost-sharing, multiple-employer public employee retirement system established as a defined benefit pension plan to administer a pension benefits program for all eligible employees of the State and counties of Hawaii. Benefit terms, eligibility, and contribution requirements are established by Chapter 88 of the Hawaii Revised Statutes and can be amended through legislation.

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 (generally 1.25% or 2%) 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 before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012, the post-retirement annuity increase was decreased to 1.5% per year.

<u>Noncontributory Class</u>

- <u>Retirement Benefits</u> - 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.

- <u>Disability Benefits</u> - 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.

- <u>Death Benefits</u> - 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.

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of 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.

Contributory Class for Employees 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 to the surviving spouse/reciprocal beneficiary 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 Employees 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 ten years of credited service are eligible to retire at age 60.

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

- Disability and Death Benefits - Disability and 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.

Hybrid Class for Employees 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 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 to the surviving spouse/reciprocal beneficiary 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 Employees 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.

NOTE M - EMPLOYEE BENEFIT PLANS (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 plus a percentage multiplied by 120% 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 or if less than 10 years of service, return of the member's contributions and accrued interest.

Contributions - The employer contribution rate is a fixed percentage of compensation. The employer contribution rates for the fiscal years ended June 30, 2016 and 2015 was 17.00% and 16.50%, respectively. For the fiscal years ended June 30, 2016 and 2015, contributions to the pension plan from the BWS totaled $5,871,134 and $6,686,641, respectively.

The employer is required to make all contributions for noncontributory members. For contributory class employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary. For contributing class employees hired after June 30, 2012, general employees are required to contribute 9.8% of their salary. Hybrid class members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid class members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions - At June 30, 2016 and 2015, the BWS reported a liability of $81,526,553 and $73,141,824, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The BWS's proportion of the net pension liability was based on the actual employer contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2015 and 2014, the BWS's proportion was 0.93% and 0.91%, respectively, which was an increase of 0.02% and 0.13%, respectively, from its proportion measured as of June 30, 2014 and 2013.

For the fiscal years ended June 30, 2016 and 2015, the BWS recognized pension expense of $10,851,369 and $9,661,604, respectively. At June 30, 2016 and 2015, the BWS reported

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 763,598	$ 2,281,473
Changes of assumptions	1,924,472	--
Net difference between projected and actual earnings on pension plan investments	--	2,781,951
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,367,788	--
Employer contributions subsequent to the measurement date	7,700,062	--
	$ 19,755,920	$ 5,063,424

	June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 930,101	$ --
Net difference between projected and actual earnings on pension plan investments	--	8,488,509
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,597,062	--
Employer contributions subsequent to the measurement date	7,245,510	--
	$ 16,772,673	$ 8,488,509

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

The $7,700,062 of deferred outflows of resources related to pensions at June 30, 2016 resulting from the BWS's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2016 will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2017	$ 1,251,595
2018	1,251,595
2019	1,251,595
2020	2,987,104
2021	250,545
	$ 6,992,434

Actuarial Assumptions

The following actuarial assumptions were used in the actuarial valuations as of June 30, 2015 and 2014:

	2015	2014
Inflation	3.00%	3.00%
Payroll growth rate	3.50%	3.50%
Investment rate of return, including inflation	7.65%	7.75%
Salary increases, including inflation		
Police and fire employees	5.00% to 19.00%	5.00% to 19.00%
General employees	4.00% to 8.00%	4.00% to 8.00%
Teachers	4.50% to 8.50%	4.50% to 8.50%

Mortality assumptions used in the actuarial valuations as of June 30, 2015 and 2014 included post-retirement mortality rates that were based on either the Client Specific Tables or the 1994 US Group Annuity Mortality Static Tables. Pre-retirement mortality rates were based on the RP-2000 Mortality Tables.

The actuarial assumptions used in the actuarial valuations as of June 30, 2015 and 2014 were based on the results of an actuarial experience study for the five-year period ended June 30, 2010. ERS updates their experience studies every five years.

The long-term expected rate of return on pension 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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

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 used in the actuarial valuations as of June 30, 2015 and 2014 are summarized in the following table:

	2015		2014	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30.00%	8.50%	30.00%	8.50%
International equity	26.00%	9.25%	26.00%	9.00%
Total fixed-income	20.00%	3.10%	20.00%	3.10%
Real estate	7.00% *	9.20%	7.00%	8.46%
Private equity	7.00% *	11.85%	7.00%	11.45%
Real return	5.00% *	6.65%	5.00%	6.10%
Covered calls	5.00%	7.65%	5.00%	7.65%
	100.00%		100.00%	

* The real estate, private equity and real return targets will be the percentage actually invested up to 7.0%, 7.0% and 5.0%, respectively, of the total fund. Changes in the real estate, private equity and real return targets will be offset by an equal percentage in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2016 and 2015 was 7.65% and 7.75%, respectively. 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.

Sensitivity of the BWS's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the BWS's proportionate share of the net pension liability calculated for the fiscal years ended June 30, 2016 and 2015 using the applicable discount rate, as well as what the BWS's proportionate share of the net pension liability would be if it were

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the applicable rate:

	June 30, 2016		
	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
Proportionate share of the net pension liability	$ 102,639,120	$ 81,526,553	$ 60,413,986

	June 30, 2015		
	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	$ 92,705,833	$ 73,141,824	$ 53,577,814

Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at http://www.ers.ehawaii.gov.

Payable to the Pension Plan

At June 30, 2016 and 2015, the amount payable to the ERS totaled $487,947 and $2,407,228, respectively. The amount payable at June 30, 2016 and 2015 consists of statutorily required employer contributions for the month of June 2016 and 2015, respectively. The amount payable at June 30, 2015 also includes excess pension costs incurred by the BWS, as required by the HRS, attributed to fiscal year 2015 and 2014.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State of Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer plan provides certain health care (medical, prescription, vision and dental) and life insurance benefits for retired BWS employees. Act 88 established the EUTF during the 2001 State legislative session and is codified in HRS 87A. Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage.

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

For employees hired and or before July 1, 1996, the BWS pays 100% of the monthly health care premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996 but before July 1, 2001, and retiring with 25 years or more of service, the BWS pays the entire health care premium. For employees retiring with at least 15 years but fewer than 25 years of service, the BWS pays 75% of the monthly Medicare or non-Medicare premium. For those retiring with at least 10 years but fewer than 15 years of service, the BWS pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with fewer than 10 years of service, the BWS makes no contributions.

For employees hired on or after June 30, 2001 and retiring with over 25 years of service, the BWS pays 100% of the monthly premium based on the self plan. For those who retire with at least 15 years but fewer than 25 years of service, the BWS pays 75% of the retired employees' monthly Medicare or non-Medicare premium based on the self plan. For those retiring with at least 10 years but fewer than 15 years of service, the BWS pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self plan. For those retiring with fewer than 10 years of service, the BWS makes no contributions.

The BWS also reimburses 100% of Medicare premium costs for retirees and qualified dependents (through the State of Hawaii), who are at least 65 years of age and have at least 10 years of service.

The BWS is required to contribute the annual required contribution ("ARC") of the employer, an amount actuarially determined for the other postemployment benefits ("OPEB"). The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities or funding excess over a period not to exceed 30 years.

For the fiscal years ended June 30, 2016, 2015 and 2014, the components of the BWS's annual OPEB costs, the amounts contributed to the plan and the changes to the BWS's net OPEB asset (obligation) are summarized as follows:

	2016	2015	2014
Annual required contribution	$ 8,826,000	$ 8,528,000	$ 8,977,000
Interest on net OPEB obligation	(645,000)	493,000	32,000
Adjustments to annual required contribution	602,000	(446,000)	(28,000)
Annual OPEB cost	8,783,000	8,575,000	8,981,000
Contributions made	(11,728,539)	(10,750,399)	(16,482,667)
Change in net OPEB asset (obligation)	2,945,539	2,175,399	7,501,667
Net OPEB asset (obligation)			
Beginning of year	9,216,616	7,041,217	(460,450)
End of Year	$ 12,162,155	$ 9,216,616	$ 7,041,217
Percentage of annual OPEB cost contributed	134%	125%	184%

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

The funded status of the plan as of the most recent valuation dates are as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2015	$ 50,689,000	$ 137,018,000	$ 86,329,000	37%	$ 34,218,000	252%
July 1, 2013	$ 25,638,000	$ 122,886,000	$ 97,248,000	21%	$ 31,677,000	307%

The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a discount rate of 7.0%, projected payroll growth of 3.5%, and an annual health cost trend rates of 9.0% and 7.5% for PPO and HMO, respectively, reduced by decrements to an ultimate rate of 5.0% after 8 years. The initial unfunded actuarial accrued liability is amortized as a level percentage of projected payroll over a thirty-year closed period ending June 30, 2037.

The EUTF issues a stand-alone financial report that includes financial statements and required supplementary information, which may be obtained at the following address: State of Hawaii Employer-Union Health Benefits Trust Fund, P.O. Box 2121, Honolulu, Hawaii 96805.

NOTE N - COMMITMENTS

Commitments, primarily for capital improvements, approximated $217,450,000 and $185,570,000 as of June 30, 2016 and 2015, respectively. Such amounts are to be funded by operating revenues, contributed capital, cash and investments on hand.

NOTE O - CONTINGENCIES

Workers' Compensation Self-Insurance Liability

The BWS is self-insured for workers' compensation and disability claims up to $600,000 and in excess of $25,000,000. The BWS has obtained excess insurance coverage for claims that are not self-insured. The BWS provides reserves for claims not covered by insurance that in the opinion of management will result in probable judgment against the BWS.

The liability for losses and loss adjustment expenses is comprised of case reserves and incurred but not reported loss reserves ("IBNR"). Case or outstanding loss reserves represent estimates of ultimate costs to settle reported claims. The estimated liability is presented at its net present value using a discount rate of 3%.

Determination of a reserve account for workers' compensation is a significant estimate. It is reasonably possible that one or more future events could result in a material change in the estimated claims loss in the near term.

Arbitrage

The BWS is required to annually calculate rebates to the U.S. Treasury on revenue bond issues. In accordance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amounts by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. As of June 30, 2016 and 2015, the arbitrage rebate and yield restriction liability totaled approximately $-0- and $66,000, respectively.

Safe Drinking Water

The BWS 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 BWS 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 BWS's customer service area.

Other Legal Matters

The BWS 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 material adverse effect on the BWS's financial position, results of operations, or liquidity.

NOTE P - PRIOR PERIOD RESTATEMENT

The previously issued financial statements of the BWS as of June 30, 2015 have been restated to correct errors in accounting for the deferred loss on refunding of debt and state revolving fund notes payable. The misstatement of the deferred loss on refunding was the result of amortizing the loss over a period shorter than that required by accounting principles generally accepted in the United States of America. The misstatement of notes payable was due to the inclusion of the principal portion of the obligation that had been forgiven as of June 30, 2015.

The resulting effect on the change in net position for the fiscal year ended June 30, 2015 was an increase of $6,611,890 from the previously reported amount. There was no effect on the net position balance as of July 1, 2014. The following is a summary of the effect of the correction on each financial statement line item:

	2015 Previously Reported	Increase (Decrease)	2015 As Restated
Statement of net position			
Deferred outflows of resources			
Deferred loss on refunding of debt	$ 16,655,036	$ 5,044,890	$ 21,699,926
Liabilities			
Notes payable, noncurrent	$ 58,264,967	$ (1,567,000)	$ 56,697,967
Net position			
Net investment in capital assets	$ 819,139,210	$ 6,611,890	$ 825,751,100
Statement of revenue, expenses and changes in net position			
Interest expense	$ 11,957,255	$ (5,044,890)	$ 6,912,365
Contributions in aid of construction	$ 18,350,178	$ 1,567,000	$ 19,917,178

REQUIRED SUPPLEMENTARY INFORMATION

Board of Water Supply
City and County of Honolulu
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Last Ten Fiscal Years *

Measurement Period Ended	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered - Employee Payroll	Proportionate Share of the Net Pension Liability as a %age of Covered Payroll	Plan Fiduciary Net Position as a %age of the Total Pension Liability
June 30, 2015	0.93%	$ 81,526,553	$ 34,535,200	236%	62.42%
June 30, 2014	0.91%	73,141,824	33,200,116	220%	63.92%
June 30, 2013	0.78%	69,992,291	30,476,908	230%	57.96%

* This schedule is intended to present information for ten years, as of the measurement date of the collective net pension liability for each respective fiscal year. Additional years will be built prospectively as information becomes available.

Board of Water Supply
City and County of Honolulu
SCHEDULE OF CONTRIBUTIONS
Last Ten Fiscal Years

Fiscal Year Ended	Statutorily Required Contribution	Contributions in Relation to Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered - Employee Payroll	Contributions as a %age of Covered Payroll
June 30, 2016	$ 5,871,134	$ 5,871,134	$ --	$ 35,672,123	16.5%
June 30, 2015	6,686,641	6,686,641	--	34,535,200	19.4%
June 30, 2014	5,931,238	5,931,238	--	33,200,116	17.9%
June 30, 2013	4,604,149	4,604,149	--	30,476,908	15.1%
June 30, 2012	4,404,845	4,404,845	--	30,192,006	14.6%
June 30, 2011	4,497,292	4,497,292	--	30,754,022	14.6%
June 30, 2010	4,850,928	4,850,928	--	33,089,421	14.7%
June 30, 2009	4,804,377	4,804,377	--	33,589,442	14.3%
June 30, 2008	4,273,765	4,273,765	--	31,576,266	13.5%
June 30, 2007	4,163,427	4,163,427	--	30,580,123	13.6%

Board of Water Supply
City and County of Honolulu
SCHEDULE OF FUNDING PROGRESS
June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a %age of Covered Payroll
July 1, 2015	$ 50,689,000	$ 137,018,000	$ 86,329,000	37%	$ 34,218,000	252%
July 1, 2013	$ 25,638,000	$ 122,886,000	$ 97,248,000	21%	$ 31,677,000	307%
July 1, 2011	$ 14,557,000	$ 127,154,000	$ 112,597,000	11%	$ 29,900,000	377%

SUPPLEMENTARY INFORMATION

Board of Water Supply
City and County of Honolulu
SCHEDULE OF BONDS PAYABLE
June 30, 2016

	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (1)	Outstanding June 30, 2016
Water System Revenue Bonds Series 2006A (Non-AMT)					
Insured Serial Bonds	4.250%	7/7/2006	7/1/2016	(2)	$ 2,795,000
					2,795,000
Water System Revenue Bonds Series 2006B (AMT)					
Insured Serial Bonds	5.000%	7/7/2006	7/1/2016	(2)	3,605,000
					3,605,000
Water System Revenue Bonds Series 2012A					
Insured Serial Bonds	3.000%	3/29/2012	7/1/2016	(2)	940,000
Insured Serial Bonds	3.000%	3/29/2012	7/1/2017	(2)	970,000
Insured Serial Bonds	4.000%	3/29/2012	7/1/2018	(2)	3,960,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2019	(2)	4,140,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2020	(2)	2,320,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2021	(2)	6,865,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2022	(2)	8,535,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2023	7/1/2022	3,605,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2024	7/1/2022	3,790,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2025	7/1/2022	3,980,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2026	7/1/2022	4,185,000
Insured Serial Bonds	4.500%	3/29/2012	7/1/2027	7/1/2022	4,390,000
Insured Serial Bonds	4.500%	3/29/2012	7/1/2028	7/1/2022	4,595,000
Insured Serial Bonds	4.500%	3/29/2012	7/1/2029	7/1/2022	4,805,000
Insured Serial Bonds	4.500%	3/29/2012	7/1/2030	7/1/2022	5,025,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2031	7/1/2022	5,270,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2032	7/1/2022	5,540,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2033	7/1/2022	5,825,000
Bifurcated Serial Bonds	2.000%	3/29/2012	7/1/2020	(2)	2,000,000
					$ 80,740,000

(1) Call dates indicated are optional.
(2) Noncallable.

Board of Water Supply
City and County of Honolulu
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2016

	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (1)	Outstanding June 30, 2016
Water System Revenue Bonds					
Series 2014A (Non-AMT)					
Tax-Exempt Serial Bonds					
Insured Serial Bonds	5.000%	12/9/2014	7/1/2023	(2)	$ 5,585,000
Insured Serial Bonds	3.000%	12/9/2014	7/1/2024	(2)	410,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2024	(2)	5,455,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2025	7/1/2024	6,165,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2026	7/1/2024	6,480,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2027	7/1/2024	6,810,000
Insured Serial Bonds	3.000%	12/9/2014	7/1/2028	(2)	930,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2028	7/1/2024	6,215,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2029	7/1/2024	7,505,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2030	7/1/2024	7,930,000
Insured Serial Bonds	3.250%	12/9/2014	7/1/2031	(2)	4,470,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2031	7/1/2024	3,825,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2032	7/1/2024	6,575,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2033	7/1/2024	6,840,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2034	7/1/2024	8,500,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2035	7/1/2024	8,755,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2036	7/1/2024	9,205,000
					101,655,000
Water System Revenue Bonds					
Series 2014B (AMT)					
Taxable Serial Bonds					
Insured Serial Bonds	0.805%	12/9/2014	7/1/2016	(2)	795,000
Insured Serial Bonds	1.335%	12/9/2014	7/1/2017	(2)	7,395,000
Insured Serial Bonds	1.744%	12/9/2014	7/1/2018	(2)	4,590,000
Insured Serial Bonds	2.144%	12/9/2014	7/1/2019	(2)	4,680,000
Insured Serial Bonds	2.389%	12/9/2014	7/1/2020	(2)	4,790,000
Insured Serial Bonds	2.619%	12/9/2014	7/1/2021	(2)	2,585,000
Insured Serial Bonds	2.755%	12/9/2014	7/1/2022	(2)	1,540,000
Insured Serial Bonds	2.915%	12/9/2014	7/1/2023	(2)	1,585,000
Insured Serial Bonds	3.135%	12/9/2014	7/1/2024	(2)	1,625,000
Insured Serial Bonds	3.285%	12/9/2014	7/1/2025	(2)	1,670,000
Insured Serial Bonds	3.385%	12/9/2014	7/1/2026	(2)	1,730,000
Insured Serial Bonds	3.485%	12/9/2014	7/1/2027	(2)	1,785,000
Insured Serial Bonds	3.585%	12/9/2014	7/1/2028	(2)	1,845,000
Insured Serial Bonds	3.685%	12/9/2014	7/1/2029	(2)	1,910,000
Insured Serial Bonds	3.760%	12/9/2014	7/1/2030	(2)	1,975,000
Insured Serial Bonds	3.860%	12/9/2014	7/1/2031	(2)	2,045,000
					42,545,000
					$ 231,340,000

(1) Call dates indicated are optional.

(2) Noncallable.

Board of Water Supply
City and County of Honolulu
SCHEDULES OF NET REVENUE REQUIREMENT
Fiscal Years Ended June 30, 2016 and 2015

		2016		2015
REVENUES				
Water sales	$	234,725,808	$	212,486,218
Interest		4,150,911		3,088,165
Other		4,277,747		4,721,506
Total revenues		243,154,466		220,295,889
DEDUCTIONS				
Operating expenses		183,712,511		183,533,096
Less: depreciation expense		(45,581,460)		(45,286,091)
Less: allocated depreciation charges		(1,584,475)		(1,540,393)
Total deductions		136,546,576		136,706,612
Net revenues	$	106,607,890	$	83,589,277
NET REVENUE REQUIREMENT				
Greater of:				
1) Aggregate debt service	$	17,890,708	$	15,399,941
Required deposits		--		--
	$	17,890,708	$	15,399,941
2) Aggregate debt service	$	17,890,708	$	15,399,941
Minimum required debt service ratio	x	1.20	x	1.20
Net revenue requirement	$	21,468,850	$	18,479,929
Net revenue to aggregate debt service ratio		5.96		5.43