

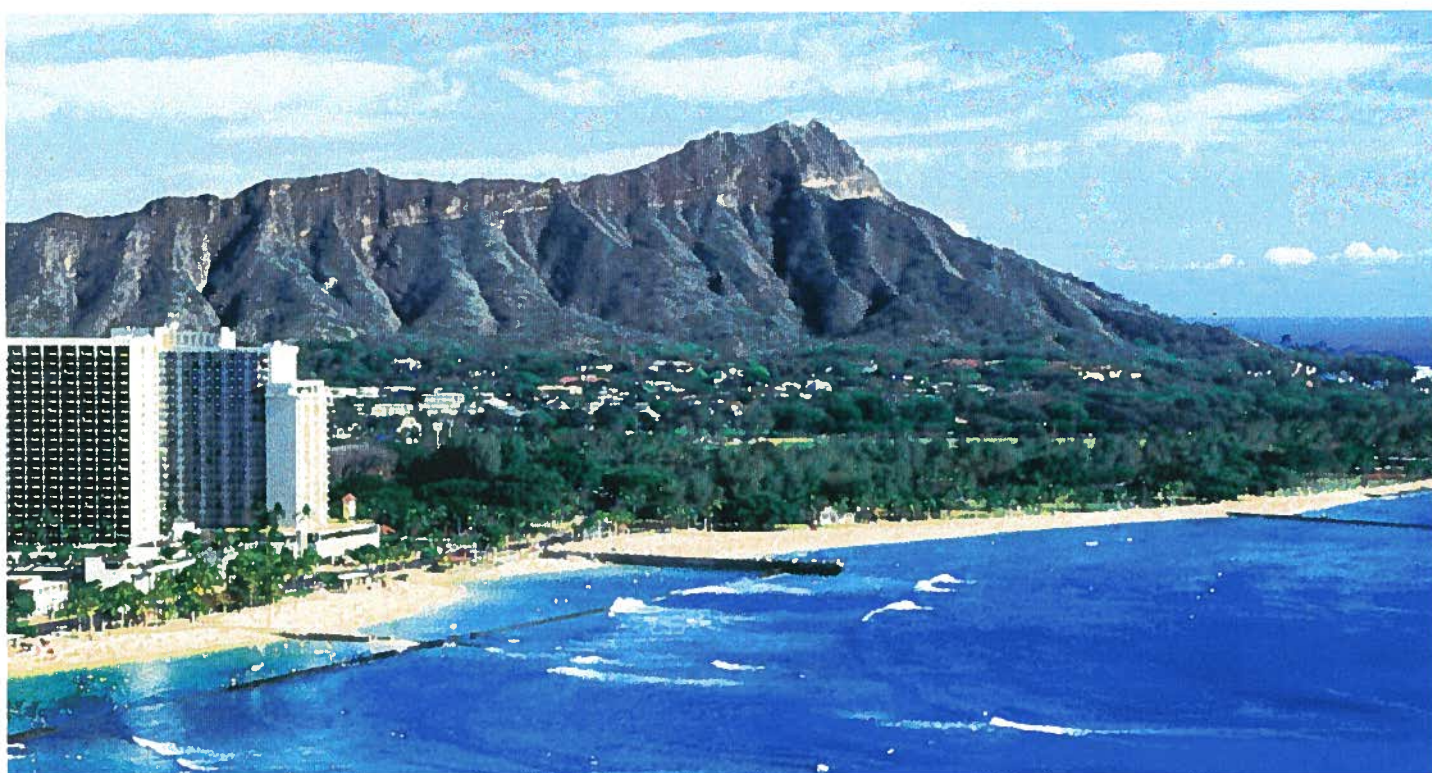
OFFICE OF THE CITY AUDITOR

City and County of Honolulu
State of Hawai'i

City and County of Honolulu Sewer Fund

Financial Statements and Supplemental Schedules

June 30, 2016 and 2015



Conducted by KMH LLP

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A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Chair and Members of the City Council
City and County of Honolulu

Report on the Financial Statements

We have audited the accompanying financial statements of the City and County of Honolulu, Sewer Fund ("Sewer Fund") which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Sewer Fund as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above include only the financial activities of the Sewer Fund, and are not intended to present fairly the financial position of the City and County of Honolulu as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedule of City's proportionate share of the net pension liability, schedule of contributions, notes to schedule of City's proportionate share of the net pension liability and schedule of funding progress on pages 39, 40, 41 and 42, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

KMH LLP

KMH LLP

Honolulu, Hawaii
December 15, 2016

City and County of Honolulu, Sewer Fund

Management's Discussion and Analysis
June 30, 2016 and 2015

The following summary discussion and analysis of the financial statements for the fiscal years ended June 30, 2016 and 2015 are provided by the City and County of Honolulu's wastewater enterprise ("Wastewater Enterprise"). The summary is designed to provide an introduction to the Sewer Fund financial statements and the financial condition of the Wastewater Enterprise. We encourage readers to also review the financial statements as a whole.

Financial Highlights

- 113.0 million gallons per day of wastewater were collected and treated in fiscal year 2016, an increase of 7.3% from fiscal year 2015. There were 105.3 million gallons per day of wastewater collected and treated in fiscal year 2015, 0.3% more than fiscal year 2014. As of June 30, 2016, the Wastewater Enterprise had approximately 146,300 customer accounts and served approximately 780,000 residents.
- Total assets and deferred outflows of resources were \$3,981.9 million and exceeded total liabilities and deferred inflows of resources by \$1,624.2 million as of June 30, 2016. As of June 30, 2015, total assets and deferred outflows of resources were \$3,628.4 million and exceeded total liabilities and deferred inflows of resources by \$1,446.9 million. As of June 30, 2016, net position (difference between assets, deferred inflows/outflows of resources, and liabilities) increased by \$177.3 million, or 12.3%, from June 30, 2015, while net position at June 30, 2015, increased by \$45.3 million, or 3.2%, from June 30, 2014. The increase in net position in 2016 and 2015 was due to increased current and capital assets.
- As of June 30, 2016, total assets increased by \$332.5 million to \$3,929.2 million, representing a 9.2% increase from the prior fiscal year, while total assets increased by \$107.4 million to \$3,596.7 million at June 30, 2015, representing a 3.1% increase from June 30, 2014. The increase in fiscal year 2016 and 2015 was due to additional capital assets.
- Total current and restricted assets increased by 17.5% or \$166.9 million to \$1,119.4 million at June 30, 2016, while total current and restricted assets decreased by 4.3% or \$43.3 million to \$952.5 million at June 30, 2015. The increase in 2016 was primarily due to revenue bond proceeds and increased sewer service charge revenues and the decrease in 2015 was primarily due to the expenditure of revenue bond proceeds.
- Total current liabilities increased by 9.0% or \$13.9 million to \$168.8 million primarily due to an increase in interest and bonds payable. At June 30, 2016, total liabilities increased 7.9% or \$171.4 million to \$2,338.7 million due to an increase in bonds payable. At June 30, 2015, total current liabilities increased by 13.2% or \$18.1 million to \$154.9 million primarily due to a increase in accounts payable. Total liabilities also increased by 2.7% or \$56.7 million to \$2,167.3 million due to an increase in accounts payable and inclusion of net pension liability.

City and County of Honolulu, Sewer Fund

Management's Discussion and Analysis
June 30, 2016 and 2015

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Wastewater Enterprise's financial statements, which consist of the basic financial statements and notes to the financial statements.

Basic financial statements. The basic financial statements are designed to provide readers with a broad overview of the Wastewater Enterprise's finances, in a manner similar to a private-sector business.

The statements of net position presents information on the Wastewater Enterprise's assets, liabilities, and deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Wastewater Enterprise is improving or deteriorating. Net position increases when revenues and subsidies exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased net position, which indicates an improved financial position.

The statements of revenues, expenses, and changes in net position present information showing how the Wastewater Enterprise's net position changed during the past two fiscal years. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The statements of cash flows present changes in cash and cash equivalents, resulting from operating, financing, and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

City and County of Honolulu, Sewer Fund

Management's Discussion and Analysis
June 30, 2016 and 2015

Financial Analysis

The following are the highlights of the condensed statements of net position (in thousands of dollars) for the Wastewater Enterprise:

	2016	2015	2014
Statements of Net Position			
Assets:			
Current assets	\$ 963,355	\$ 837,396	\$ 739,148
Restricted assets	156,042	115,089	256,627
Capital assets, net	2,809,572	2,642,920	2,492,101
Other noncurrent assets	265	1,314	1,462
Deferred Outflows of Resources	52,678	31,683	22,904
Total assets and deferred outflows	<u>\$ 3,981,912</u>	<u>\$ 3,628,402</u>	<u>\$ 3,512,242</u>
Liabilities:			
Current liabilities	\$ 168,837	\$ 154,915	\$ 136,849
Noncurrent liabilities	2,169,880	2,012,361	1,973,769
Deferred Inflows of Resources	19,034	14,224	-
Total liabilities and deferred inflows	<u>2,357,751</u>	<u>2,181,500</u>	<u>2,110,618</u>
Net investment in capital assets	785,313	713,781	659,812
Restricted for debt service	174,514	181,029	178,187
Unrestricted	<u>664,334</u>	<u>552,092</u>	<u>563,625</u>
Total net position	<u>1,624,161</u>	<u>1,446,902</u>	<u>1,401,624</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,981,912</u>	<u>\$ 3,628,402</u>	<u>\$ 3,512,242</u>

Net position

Net position (the difference between assets, liabilities, and deferred inflows/outflows of resources) may serve, over time, as a useful indicator of a government's financial position. In the case of the Wastewater Enterprise, assets and deferred outflows of resources exceeded liabilities by \$1,624.2 million and \$1,446.9 million at the end of fiscal years 2016 and 2015, respectively. Additions of capital assets resulted in a 12.3% increase in net position from fiscal year 2015 to 2016. The largest portion of the Wastewater Enterprise's net position represented its investment in capital assets (e.g., land, buildings, transmission and distribution system, etc.). The Wastewater Enterprise uses these capital assets to provide wastewater services on the Island of Oahu and consequently, capital assets are not available to liquidate liabilities or other spending.

City and County of Honolulu, Sewer Fund

Management's Discussion and Analysis
June 30, 2016 and 2015

The following are the highlights of the condensed statements of revenues, expenses and changes in net position (in thousands of dollars):

Statements of Revenues, Expenses and Changes in Net Position

	2016	2015	2014
Operating revenues	\$ 423,798	\$ 397,389	\$ 390,351
Operating expenses	<u>(188,151)</u>	<u>(191,658)</u>	<u>(211,608)</u>
Operating income	235,647	205,731	178,743
Nonoperating revenues (expenses)			
Interest income	3,432	1,196	1,323
Interest expense	(51,542)	(60,541)	(65,162)
Other	<u>2,724</u>	<u>4,834</u>	<u>4,794</u>
Income before transfers and capital contributions	190,261	151,220	119,698
Transfers out	(13,426)	(13,805)	(9,915)
Capital contributions	<u>424</u>	<u>782</u>	<u>506</u>
Change in net position	177,259	138,197	110,289
Net position			
Beginning of year, as previously reported	1,446,902	1,401,624	1,291,335
Restatement due to change in accounting principle	<u>-</u>	<u>(92,919)</u>	<u>-</u>
Beginning of year, as restated	<u>1,446,902</u>	<u>1,308,705</u>	<u>1,291,335</u>
End of year	<u>\$ 1,624,161</u>	<u>\$ 1,446,902</u>	<u>\$ 1,401,624</u>

The changes in net position were primarily due to:

- Operating revenues, comprised mainly of sewer service charges, increased 6.6% to \$423.8 million for the fiscal year 2016 compared to the prior fiscal year and increased 1.8% to \$397.4 million for fiscal year 2015 compared to fiscal year 2014. Sewer service charge rates were raised 5 percent July 1, 2015.
- Operating expenses decreased \$3.5 million or 1.8% to \$188.2 million for fiscal year 2016 compared to the prior fiscal year and decreased \$19.9 million or 9.4% to \$191.7 million for fiscal year 2015 compared to fiscal year 2014. The primary decrease in 2016 was in administration and general and utilities. The primary decrease in 2015 was in administration and general, utilities, and contractual services.

City and County of Honolulu, Sewer Fund

Management's Discussion and Analysis
June 30, 2016 and 2015

- Interest expense decreased by \$9.0 million or 14.9% to \$51.5 million for fiscal 2016 compared to the prior fiscal year and decreased by \$4.6 million or 7.1% to \$60.5 million for fiscal 2015 compared to fiscal year 2014. The decrease in 2016 and 2015 was due to a decrease in interest expense on wastewater revenue bonds and an increase in interest expense that was capitalized.
- Contributed capital decreased to \$0.43 million in fiscal year 2016 down from \$0.78 million in fiscal year 2015 and \$0.51 million in fiscal year 2014. Contributed capital represents assets (primarily capital assets) transferred from other city governmental funds and other entities. Approximately \$13.4 million was transferred out during fiscal year 2016 for the Wastewater Enterprise's share of central administrative expenses incurred by the City and \$13.8 million was transferred out during fiscal year 2015 for the Wastewater Enterprise's share of central administrative expenses incurred by the City.

Capital Asset and Debt Administration

Capital assets. The Wastewater Enterprise's investment in capital assets amounted to \$2.8 billion and \$2.6 billion, net of accumulated depreciation, as of June 30, 2016 and 2015, respectively, an increase of \$166.7 million or 6.3% in 2016 and \$150.8 million or 6.1% in 2015. Capital assets include land, buildings, infrastructure, land improvements, equipment and machinery for the 9 treatment plants, 68 pumping stations, and over 2,100 miles of sewer line that makes up the Wastewater Enterprise. Capital assets are added, rehabilitated or replaced according to the infrastructure and facilities twenty-year capital plan.

Long-term debt. Wastewater revenue bonds and State revolving fund loans are the primary long-term financing instruments used to fund the acquisition of capital assets. The long term portion of revenue bonds outstanding as of June 30, 2016 and 2015 totaled \$1,817.0 million and \$1,665.7 million, respectively. The long term portion of state revolving fund notes payable outstanding at June 30, 2016 and 2015 totaled \$230.1 million and \$225.2 million, respectively.

Debt service coverage was 360% on Senior Revenue Bonds, 251% on all revenue bonds, and 216% on all debt at June 30, 2016, compared to 293% on Senior Revenue Bonds, 204% on all revenue bonds, and 178% on all debt at June 30, 2015. Debt service coverage exceeded the requirements of bond covenants and policies of the City Council in 2016 and 2015.

Additional information on the Wastewater Enterprise's capital assets and long-term debt can be found in the notes to the financial statements.

City and County of Honolulu, Sewer Fund

Management's Discussion and Analysis
June 30, 2016 and 2015

Currently Known Facts, Decisions or Conditions

Sewer service charge rates were increased by 5% effective July 1, 2015. Rate structure changes were implemented July 1, 2012, for residential customers and January 23, 2013, for non-residential customers. Sewer service charges increased 8% on July 1, 2016. In support of requirements in the 2010 Consent Decree (See Note 11 to the financial statement) and other system requirements, the City anticipates issuing additional wastewater system revenue bonds to pay for costs of certain additions and improvements to the wastewater system and to refund eligible previously issued bonds for economic savings during FY 2017.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City and County of Honolulu, Department of Environmental Services, 1000 Uluohia Street, Suite 308, Kapolei, Hawaii 96707.

City and County of Honolulu, Sewer Fund

Statements of Net Position
 June 30, 2016 and 2015
 (Amounts in thousands)

Assets and Deferred Outflows of Resources

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and cash equivalents	\$ 127,856	\$ 243,703
Investments	759,729	522,685
Receivables:		
Accounts, net of allowance for uncollectible accounts of \$4,057 and \$5,190, respectively	55,381	51,752
Interest	1,124	174
Employee advances	894	951
Total receivables	<u>57,399</u>	<u>52,877</u>
Due from other City funds	325	321
Inventories of materials and supplies	15,406	15,251
Prepaid expenses	<u>2,640</u>	<u>2,559</u>
Total current assets	963,355	837,396
Restricted Assets – Investments	156,042	115,089
Capital Assets, Net	2,809,572	2,642,920
Other Assets	<u>265</u>	<u>1,314</u>
Total assets	<u>3,929,234</u>	<u>3,596,719</u>
Deferred Outflows of Resources:		
Deferred refunding costs, net	35,887	21,358
Deferred pension costs	<u>16,791</u>	<u>10,325</u>
Total deferred outflows of resources	<u>52,678</u>	<u>31,683</u>
Total assets and deferred outflows of resources	<u>\$ 3,981,912</u>	<u>\$ 3,628,402</u>

The accompanying notes are an integral part of the financial statements.

City and County of Honolulu, Sewer Fund

Statements of Net Position (continued)
 June 30, 2016 and 2015
 (Amounts in thousands)

Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2016</u>	<u>2015</u>
Current Liabilities:		
Accounts payable	\$ 48,153	\$ 56,568
Due to other City funds	13	4
Interest payable	44,627	30,524
Bonds payable	51,813	45,573
Notes payable	22,066	20,130
Accrued payroll	1,666	1,644
Other current liabilities	499	472
Total current liabilities	<u>168,837</u>	<u>154,915</u>
Revenue Bonds Payable, Net	1,817,024	1,665,702
Net Pension Liability	88,686	90,284
Notes Payable	230,082	225,157
General Obligation Bonds Payable, Net	784	853
Other Liabilities	33,304	30,365
Total liabilities	<u>2,338,717</u>	<u>2,167,276</u>
Deferred Inflows of Resources--		
Deferred Pension Costs	<u>19,034</u>	<u>14,224</u>
Net Position:		
Net investment in capital assets	785,313	713,781
Restricted for debt service	174,514	181,029
Unrestricted	664,334	552,092
Total net position	<u>1,624,161</u>	<u>1,446,902</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 3,981,912</u>	<u>\$ 3,628,402</u>

The accompanying notes are an integral part of the financial statements.

City and County of Honolulu, Sewer Fund

Statements of Revenues, Expenses and Changes in Net Position
 Years Ended June 30, 2016 and 2015
 (Amounts in thousands)

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Sewer service charges	\$ 411,996	\$ 387,957
Other revenue	11,802	9,432
Total operating revenues	<u>423,798</u>	<u>397,389</u>
Operating Expenses:		
Administrative and general	48,599	55,308
Depreciation	62,384	58,111
Utilities	20,779	25,180
Fringe benefits	20,294	23,140
Contractual services	20,881	16,945
Materials and supplies	13,803	11,269
Fuel and lubricants	902	1,211
Maintenance	509	494
Total operating expenses	<u>188,151</u>	<u>191,658</u>
Income from operations	<u>235,647</u>	<u>205,731</u>
Nonoperating Revenues (Expenses):		
Interest income	3,432	1,196
Interest expense	(51,542)	(60,541)
Other	2,724	4,834
Total nonoperating expenses	<u>(45,386)</u>	<u>(54,511)</u>
Income before transfers and capital contributions	190,261	151,220
Transfers Out	(13,426)	(13,805)
Capital Contributions	424	782
Changes in net position	177,259	138,197
Net Position at Beginning of Year	<u>1,446,902</u>	<u>1,308,705</u>
Net Position, End of Year	<u><u>\$ 1,624,161</u></u>	<u><u>\$ 1,446,902</u></u>

The accompanying notes are an integral part of the financial statements.

City and County of Honolulu, Sewer Fund

Statements of Cash Flows
 Years Ended June 30, 2016 and 2015
 (Amounts in thousands)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 421,362	\$ 397,524
Cash payments to suppliers	(62,800)	(66,506)
Cash payments to employees	(60,970)	(61,466)
Net cash provided by operating activities	<u>297,592</u>	<u>269,552</u>
Cash Flows from Noncapital Financing Activities --		
Transfers Out	<u>(13,426)</u>	<u>(13,805)</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(220,151)	(180,649)
Proceeds from issuance of notes	27,766	20,000
Repayments on notes	(20,905)	(20,058)
Interest paid on notes	(2,225)	(2,372)
Proceeds from issuance of bonds, net	770,847	2
Repayments on bonds	(620,887)	(41,984)
Interest paid on bonds	(63,940)	(80,759)
Interest subsidies for wastewater system revenue bonds	5,002	4,975
Non-operating revenue	-	106
Net cash used in capital and related financing activities	<u>(124,493)</u>	<u>(300,739)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(1,625,356)	(1,412,096)
Proceeds from maturity of investments	1,347,355	1,253,235
Interest on investments	2,481	1,213
Net cash used in investing activities	<u>(275,520)</u>	<u>(157,648)</u>
Net decrease in cash and cash equivalents	(115,847)	(202,640)
Cash and Cash Equivalents, Beginning of Year	<u>243,703</u>	<u>446,343</u>
Cash and Cash Equivalents, End of Year	<u>\$ 127,856</u>	<u>\$ 243,703</u>

The accompanying notes are an integral part of the financial statements.

City and County of Honolulu, Sewer Fund

Statements of Cash Flows (continued)
 Years Ended June 30, 2016 and 2015
 (Amounts in thousands)

	<u>2016</u>	<u>2015</u>
Reconciliation of Income from Operations to Net Cash		
Provided by Operating Activities:		
Income from operations	\$ 235,647	\$ 205,731
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	62,384	58,111
Write-off of capital assets	4,182	6,144
Change in assets, liabilities and deferred inflows/outflows of resources:		
Accounts receivable	(3,573)	1,000
Due from other City funds	(3)	16
Inventories of materials and supplies	(155)	(1,403)
Deferred outflows of resources	(6,466)	119
Accounts payable	(633)	1,338
Other liabilities	2,988	974
Net pension liability	(1,597)	(13,079)
Due to other City funds	9	(3,623)
Deferred inflows of resources	4,809	14,224
Net cash provided by operating activities	<u>\$ 297,592</u>	<u>\$ 269,552</u>

Supplemental Disclosure of Noncash Capital and Related Financing Activities:

The Sewer Fund received \$0.4 million and \$0.8 million in contributions of capital assets from government agencies and developers, which are recorded as capital contributions at their cost or estimated cost at June 30, 2016 and 2015, respectively.

Amortization of net bond premiums/(discounts) amounted to \$11.6 million and \$6.7 million in fiscal years 2016 and 2015, respectively.

The accompanying notes are an integral part of the financial statements.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

1. Financial Reporting Entity

The City and County of Honolulu, Sewer Fund (“Sewer Fund”) was established as an enterprise fund effective July 1, 1999 in conjunction with the November 1998 City Resolution 98-193, CD1, authorizing the issuance of the Wastewater System Revenue Bonds for the City and County of Honolulu’s (“City”) wastewater system. The fund accounts for the operations of the City’s wastewater system.

2. Summary of Significant Accounting Policies

a. Financial Statement Presentation

The Sewer Fund is one of the various enterprise funds of the City. The accompanying financial statements present only the activities of the Sewer Fund and do not include other organizations, activities and functions of the City. The City’s Director of Budget and Fiscal Services maintains the central accounts for all City funds and publishes financial statements for the City annually, which includes the Sewer Fund’s financial activities.

The accompanying financial statements of the Sewer Fund have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (“GASB”).

b. Basis of Accounting

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

c. Use of Estimates

The preparation of 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions included revenue recognized related to unbilled accounts, allowance for uncollectible accounts, net pension liability and accrued liability for post-retirement health care benefits. Actual results could differ from those estimates.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

d. Cash and Cash Equivalents

Cash includes amounts in demand and time deposits primarily with various financial institutions in the State of Hawaii ("State"). Cash on deposit with financial institutions is collateralized in accordance with State statutes. Investments with original maturity of three months or less when purchased are considered cash equivalents.

e. Investments

Investments consist of U.S. government securities and are stated at cost, which approximates fair value.

f. Inventories of Materials and Supplies

Inventories of materials and supplies are stated at weighted average cost. The costs of inventories are recorded as expenditures when consumed rather than when purchased.

g. Receivables

Sewer service charge revenues are accrued by the City based on estimated billings for services provided through the end of the fiscal year. Receivables included estimated unbilled sewer charges amounting to approximately \$25.2 million and \$23.9 million at June 30, 2016 and 2015, respectively. The allowance for doubtful accounts is based on the aging of accounts receivable. Approximately 90% of balances over 120 days are regarded as uncollectible.

h. Restricted Assets

Revenue bond indentures allow the City to invest in U.S. Government Securities. At June 30, 2016, restricted assets consist of unspent debt proceeds of \$61.6 million and revenue bond collateral reserves of approximately \$94.4 million. At June 30, 2015, restricted assets consist of unspent debt proceeds of \$6.9 million and revenue bond collateral reserves of approximately \$108.2 million.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

i. Capital Assets

Capital assets include property, plant and equipment, including infrastructure (sewer system, network of pipes and sewer mains). Assets with an initial individual cost of \$5,000 or more for equipment and \$100,000 for buildings, structures and infrastructure, and an estimated useful life of more than one year are capitalized. Such assets are recorded at cost or estimated cost. Interest cost is capitalized as part of the cost of acquiring certain assets.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and land improvements	10 – 50
Transmission and distribution system	13 – 60
Equipment and machinery	5 – 20

Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in results of operations.

Normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Betterments are capitalized and depreciated over the remaining useful lives of the related assets, as applicable.

j. Original Issue Discounts or Premiums

Original issue discounts or premiums on bonds are amortized ratably over the terms of the respective issues and are offset against the bonds payable in the statements of net position.

k. Accrued Vacation

Employees are credited with vacation at the rate of one and three-quarters working days per month. Accumulation of such vacation credits is limited to 90 days at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statements of net position.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

l. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent consumptions of net position that apply to future periods and will not be recognized as an outflow of resources (expenditures) until then. The amount consists of:

- 1) Deferred charges on refunding bonds resulting from the difference between the carrying value of debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt on a basis that approximates the effective-interest method.
- 2) According to paragraph 33 of GASB Statement No. 68 (GASB 68), *Accounting and Reporting for Pensions (an amendment of GASB Statement No. 27)*, differences between expected and actual experience and changes in assumptions are recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the beginning of the measurement period. The average of expected remaining service lives for the purposes of recognizing the applicable deferred outflows and inflows of resources established in the 2015 fiscal year is 5.5095 years.

Additionally, differences between projected and actual earnings on pension plan investments are recognized in pension expense using a systematic and rational method over a closed five year period.

Contributions to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period are reported as a deferred outflows.

m. Pension

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 (ERS) and additions to/deductions from ERS's fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

n. Net Position

Net position is comprised of the accumulated income from operating and nonoperating revenues, expenses, transfers and capital contributions. Net position is classified in the following three components: net investment in capital assets; restricted for debt service; and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and is 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 fiscal year-end are not included in the calculation of the amount of net investment in capital assets. Restricted for debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, restricted resources are applied first, then unrestricted resources as they are needed.

o. Operating Revenues and Expenses

The City distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Sewer Fund's principal wastewater operations. The principal operating revenues are from charges for wastewater system 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.

p. Capital Contributions

Capital contributions represent assets transferred from or constructed utilizing contributions from governmental agencies and developers and recorded at cost on the date placed in service.

q. Transfers

Transfers include authorized transfers of resources from the fund legally required to receive them to the fund through which such resources are to be expended. Transfers also include reimbursement of funds to the City's General Fund for expenditures paid by the General Fund on behalf of the Sewer Fund.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

r. Risk Management

The City is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if the information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

s. New Accounting Pronouncements

In February 2015, GASB issued Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels and requires the Sewer Fund to disclose the valuation inputs and valuation techniques that was used for fair value measurements. The provisions of GASB 72 are effective for periods beginning after June 15, 2015. Management implemented the provisions of GASB 72 as of June 30, 2016.

In August 2015, GASB issued Statement No. 76 (GASB 76), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of generally accepted principles used to prepare financial statements of state and local governments. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statements. The provisions of this Statement are effective for periods beginning after June 15, 2015. Management implemented the provisions of GASB 76 as of June 30, 2016.

In June 2015, GASB issued Statement No. 73 (GASB 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*. GASB 73 applies the accounting and financial reporting established in GASB 68 to all defined benefit and defined contribution pensions that are not within the scope of GASB 68. GASB 73 will be effective for the Sewer Funds's financial statements for the year ending June 30, 2017. Management is currently evaluating the impact of the adoption of GASB 73 will have on the Sewer Fund's financial statements.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

s. New Accounting Pronouncements (continued)

In June 2015, GASB issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 amends the accounting guidance related to employers' accounting for postemployment benefits other than pension (other postemployment benefits or OPEB) administered through trusts that meet specified criteria. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to OPEB. Note disclosures and required supplementary information are addressed by the statement. GASB 75 will be effective for the Sewer Fund's financial statements for the year ending June 30, 2018. Management is currently evaluating the impact of the adoption of GASB 75 will have on the Sewer Fund's financial statements.

In March 2016, GASB issued Statement No. 82 (GASB 82), *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information (2) the selection of assumptions and 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. GASB 82 will be effective for the Sewer Fund's financial statements for the year ending June 30, 2017. Management is currently evaluating the impact of the adoption of GASB 82 will have on the Sewer Fund's financial statements.

3. Cash and Cash Equivalents and Investments

The cash and cash equivalents and investment balances reported in the accompanying statements of net position are included in the City's cash and cash equivalents and investment pool that is substantially used by all of the City's funds. Investments include \$12.7 million with FSA Capital Management LLC at June 30, 2016 and 2015. The remaining balance at June 30, 2016 is invested in the City's pooled investment fund. Information pertaining to credit risk, interest rate risk and fair value measurements is available for only the total cash and cash equivalents and investment pool, which is disclosed in the City's Comprehensive Annual Financial Report ("CAFR") available at City's website: <http://www.honolulu.gov/budget/budget-cafr.html>.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

3. Cash and Cash Equivalents and Investments (continued)

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, obligations of other states, cities and counties, mutual funds, and bank repurchase agreements. Investments in repurchase agreements are primarily U.S. government or federal agency securities. The City does not have a policy relative to interest rate risk.

4. Credit Risk

Financial instruments, which potentially expose the City to concentrations of credit risk, consist primarily of cash, investments in debt securities, and accounts receivable from customers. Cash and cash equivalents are maintained in various financial institutions in the State. Credit risk related to investments in debt securities has been mitigated by limiting such investments to debt obligations of the U.S. government.

The customer base is concentrated among commercial, industrial, residential and governmental customers located within Honolulu, Hawaii. Although the City is directly affected by Honolulu's economy, management does not believe significant credit risk exists at June 30, 2016, except as provided in the allowance for uncollectible accounts. The City manages its credit exposure through procedures designed to identify and monitor credit risk.

5. Due From and Due To Other City Funds

Due from other City funds consists primarily of bond proceeds relating to bond issuances for the Sewer Fund held by the City's General Improvement Bond Fund of approximately \$325,000 and \$321,000 at June 30, 2016 and 2015, respectively. Due to other City funds consists primarily of bond principal and interest and pension expenses for the Sewer Fund temporarily advanced by the General Fund.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

6. Capital Assets

The capital assets activity for the years ended June 30, 2016 and 2015 were as follows (in thousands of dollars):

	Balance at July 1, 2015	Additions	Retirements/ Transfers	Balance at June 30, 2016
Depreciable assets				
Buildings and improvements	\$ 1,126,292	\$ 11,097	\$ -	\$ 1,137,389
Transmission and distribution system	1,563,612	186,384	(466)	1,749,530
Equipment and machinery	74,623	4,096	(1,615)	77,104
Land improvements	3,511	330	-	3,841
Total depreciable assets	2,768,038	201,907	(2,081)	2,967,864
Less: Accumulated depreciation				
Buildings and improvements	(240,232)	(24,573)	-	(264,805)
Transmission and distribution system	(341,782)	(32,581)	137	(374,226)
Equipment and machinery	(40,722)	(5,109)	1,603	(44,228)
Land improvements	(1,875)	(121)	-	(1,996)
Total accumulated depreciation	(624,611)	(62,384)	1,740	(685,255)
	2,143,427	139,523	(341)	2,282,609
Land	45,410	429	-	45,839
Construction in progress	454,083	211,288	(184,247)	481,124
	<u>\$ 2,642,920</u>	<u>\$ 351,240</u>	<u>\$ (184,588)</u>	<u>\$ 2,809,572</u>

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

6. Capital Assets (continued)

	Balance at July 1, 2014	Additions	Retirements/ Transfers	Balance at June 30, 2015
Depreciable assets				
Buildings and improvements	\$ 1,070,966	\$ 55,326	\$ -	\$ 1,126,292
Transmission and distribution system	1,528,690	36,029	(1,107)	1,563,612
Equipment and machinery	61,053	14,691	(1,121)	74,623
Land improvements	3,511	-	-	3,511
Total depreciable assets	<u>2,664,220</u>	<u>106,046</u>	<u>(2,228)</u>	<u>2,768,038</u>
Less: Accumulated depreciation				
Buildings and improvements	(216,272)	(23,960)	-	(240,232)
Transmission and distribution system	(312,584)	(29,514)	316	(341,782)
Equipment and machinery	(37,012)	(4,518)	808	(40,722)
Land improvements	(1,756)	(119)	-	(1,875)
Total accumulated depreciation	<u>(567,624)</u>	<u>(58,111)</u>	<u>1,124</u>	<u>(624,611)</u>
	2,096,596	47,935	(1,104)	2,143,427
Land	42,284	3,135	(9)	45,410
Construction in progress	353,221	197,410	(96,548)	454,083
	<u>\$ 2,492,101</u>	<u>\$ 248,480</u>	<u>\$ (97,661)</u>	<u>\$ 2,642,920</u>

Depreciation expense was approximately \$62.4 million and \$58.1 million for the years ended June 30, 2016 and 2015, respectively.

7. Long-Term Obligations

The City issues general obligation bonds for the construction of major capital facilities. The Sewer Fund's general obligation bonds are collateralized by or expected to be paid from sewer user charges. These instruments are a direct obligation of the City for which its full faith and credit is pledged. The general obligation bonds for the Sewer Fund were issued during fiscal years 1993 through 2016 in the original amount totaling \$181.7 million, and maturing serially through fiscal year 2028. The general obligation bonds bear interest at rates ranging from 0.7% to 5.0% at June 30, 2016. No new general obligation bonds have been issued to finance construction of sewer capital facilities since fiscal year 1998. Subsequently, sewer capital facilities were funded by wastewater system revenue bonds.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

7. Long-Term Obligations (continued)

At June 30, 2016, wastewater system revenue bonds outstanding in the City's business-type activities were issued during fiscal years 1999 through 2016, in the original amount totaling \$2.3 billion, less discounts of \$36.8 million and adjusted for premiums of \$167.6 million, which are being amortized over the related term of the bonds. The bonds bear interest at 0.6% to 6.3% at June 30, 2016 and mature at various dates through fiscal year 2046. The wastewater system revenues collateralize the revenue bonds.

On August 12, 2015, the City issued tax-exempt wastewater system revenue bond of \$578.5 million and taxable wastewater system revenue bonds of \$120.4 million. The bonds were comprised of Senior series A, B & C and Junior series A & B with total aggregate of \$698.9 million.

Senior series 2015A were issued for \$185.0 million. The proceeds of the bonds will be used to pay for certain additions and improvements to the wastewater system. The bonds mature annually on July 1, 2017 through July 1, 2045 and bear interest rates at 2.0% to 5.0%. For the bonds maturing on and after July 1, 2026 through July 1, 2045, the City may exercise its option of redemption on or after July 1, 2025 in whole or in part, at any time, in any order of maturity selected by the City, and by lot within maturity, at the principal amount thereof, plus interest accrued to the date fixed for redemption thereof, without premium.

Senior series 2015B were issued for \$277.6 million. The proceeds of the bonds, along with the release of \$8.6 million of common reserve funds, were used to refund a portion of revenue bond series 2005A, 2006A, 2006B, 2006C, 2007A, 2009A. The bonds mature annually on July 1, 2016 through July 1, 2036 and bear interest rates at 3.0% to 5.0%. For the bonds maturing July 1, 2026 through July 1, 2036 except for the bonds with interest rate below 4.0% that will mature on July 1, 2028, 2033 and 2036, the City may exercise its option of redemption on or after July 1, 2025 in whole or in part, at any time, in any order of maturity selected by the City, and by lot within maturity, at the principal amount thereof, plus interest accrued to the date fixed for redemption thereof, without premium. The refunding was undertaken to reduce total debt service payments by \$58.7 million and resulted in an economic gain of approximately \$35.5 million.

Senior series 2015C were issued for \$98.1 million. The proceeds of the bonds, along with the release of \$1.7 million of common reserve funds, were used to refund a portion of revenue bond series 2006A, 2006B, 2006C, 2010 USDA. The bonds mature annually on July 1, 2016 through July 1, 2045 and bear interest rates at 0.6% to 4.6%. The refunding was undertaken to reduce total debt service payments by \$10.1million and resulted in an economic gain of approximately \$5.9 million.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

8. Long-Term Obligations (continued)

Junior Series 2015A were issued for \$115.9 million. The proceeds of the bonds, along with the release of \$3.5 million of common reserve funds, were used to refund a portion of revenue bond series 2003A, 2003B, and 2008A. The bonds mature annually on July 1, 2017 through July 1, 2032 and bear interest rates at 3.0% to 5.0%. For the bonds maturing July 1, 2026 through July 1, 2031 except for the bonds with interest rate of 3.0% maturing on July 1, 2027, the City may exercise its option of redemption on or after July 1, 2025 in whole or in part, at any time, in any order of maturity selected by the City, and by lot within maturity, at the principal amount thereof, plus interest accrued to the date fixed for redemption thereof, without premium. The refunding was undertaken to reduce total debt service payments by \$17.3 million and resulted in an economic gain of approximately \$9.9 million.

Junior Series 2015B were issued for \$22.3 million. The proceeds of the bonds, along with the release of \$0.6 million of common reserve funds, were used to refund a portion of revenue bond series 2003A and B. The bonds mature annually on July 1, 2016 through July 1, 2032 and bear interest rates at 0.9% to 4.6%. The refunding was undertaken to reduce total debt service payments by \$2.2 million and resulted in an economic gain of approximately \$1.2 million.

The notes payable to the State are for the construction of necessary treatment works. During fiscal year 2016 and 2015, the City issued notes payable amounting to \$27.8 million and \$20.0 million, respectively. The notes amounted to \$252.1 million and \$245.3 million at June 30, 2016 and 2015, respectively, bearing interest ranging from 0.0% to 3.0%, and require annual principal and interest payments through fiscal year 2035.

Total interest costs incurred in 2016 and 2015 were approximately \$71.9 million and \$75.9 million, respectively, of which \$20.3 million and \$15.4 million was capitalized in 2016 and 2015, respectively.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

7. Long-Term Obligations (continued)

Long-term obligations activity for the fiscal years ended June 30, 2016 and 2015 were as follows (in thousands of dollars):

	Balance at July 1, 2015	Additions	Reductions	Balance at June 30, 2016	Amount Due Within One Year
General obligation bonds	\$ 803	\$ -	\$ (9)	\$ 794	\$ 58
Revenue bonds	1,652,192	698,930	(587,952)	1,763,170	51,755
Notes payable	245,287	27,766	(20,905)	252,148	22,066
	<u>1,898,282</u>	<u>726,696</u>	<u>(608,866)</u>	<u>2,016,112</u>	<u>73,879</u>
Add: Unamortized net premium (discount)	59,133	74,277	(27,753)	105,657	-
Total long-term debt	<u>1,957,415</u>	<u>800,973</u>	<u>(636,619)</u>	<u>2,121,769</u>	<u>73,879</u>
Net pension liability	90,284	-	(1,598)	88,686	-
Compensated absences	7,559	3,218	(2,897)	7,880	499
Other postretirement benefits	23,278	9,607	(6,962)	25,923	-
Total long-term obligations	<u>\$ 2,078,536</u>	<u>\$ 813,798</u>	<u>\$ (648,076)</u>	<u>\$ 2,244,258</u>	<u>\$ 74,378</u>

	Balance at July 1, 2014	Additions	Reductions	Balance at June 30, 2015	Amount Due Within One Year
General obligation bonds	\$ 810	\$ 2	\$ (9)	\$ 803	\$ 9
Revenue bonds	1,691,650	-	(39,458)	1,652,192	45,564
Notes payable	245,345	20,000	(20,058)	245,287	20,130
	<u>1,937,805</u>	<u>20,002</u>	<u>(59,525)</u>	<u>1,898,282</u>	<u>65,703</u>
Add: Unamortized net premium (discount)	65,844	-	(6,711)	59,133	-
Total long-term debt	<u>2,003,649</u>	<u>20,002</u>	<u>(66,236)</u>	<u>1,957,415</u>	<u>65,703</u>
Net pension liability	103,363	-	(13,079)	90,284	-
Compensated absences	7,764	2,742	(2,947)	7,559	472
Other postretirement benefits	20,896	9,817	(7,435)	23,278	-
Arbitrage rebate	319	-	(319)	-	-
Total long-term obligations	<u>\$ 2,135,991</u>	<u>\$ 32,561</u>	<u>\$ (90,016)</u>	<u>\$ 2,078,536</u>	<u>\$ 66,175</u>

Compensated absences and other postretirement benefits are included on the accompanying statements of net position as other liabilities.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

7. Long-Term Obligations (continued)

Scheduled maturities of long-term debt at June 30, 2016 are as follows (in thousands of dollars):

Year ending June 30,	General Obligation Bonds	Revenue Bonds	Notes Payable	Total Principal	Total Interest
2017	\$ 58	\$ 51,755	\$ 22,066	\$ 73,879	\$ 85,150
2018	60	59,125	21,883	81,068	79,577
2019	55	60,860	20,948	81,863	77,312
2020	58	62,925	19,483	82,466	74,909
2021	61	65,250	19,157	84,468	72,278
2022–2026	341	374,095	92,839	467,275	312,971
2027–2031	161	413,605	47,781	461,547	217,458
2032–2036	-	351,045	7,991	359,036	126,429
2037–2041	-	242,055	-	242,055	50,362
2042–2046	-	82,455	-	82,455	8,155
	<u>794</u>	<u>1,763,170</u>	<u>252,148</u>	<u>2,016,112</u>	<u>\$ 1,104,601</u>
Less: Current portion	(58)	(51,755)	(22,066)	(73,879)	
	<u>\$ 736</u>	<u>\$ 1,711,415</u>	<u>\$ 230,082</u>	<u>\$ 1,942,233</u>	

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

8. Net Position

At June 30, 2016 and 2015, net position consisted of the following (in thousands of dollars):

	2016	2015
Net investment in capital assets:		
Net property, plant and equipment	\$ 2,809,572	\$ 2,642,920
Deferred outflows of resources - deferred refunding costs, net	35,887	21,358
Less:		
Wastewater general obligation bonds payable, net of unamortized premiums and discounts	(842)	(862)
Wastewater system revenue bonds payable, net of unamortized premiums and discounts	(1,868,779)	(1,711,266)
Notes payable	(252,148)	(245,287)
Amount of debt related to unspent debt proceeds	61,623	6,918
	785,313	713,781
Restricted for debt service	174,514	181,029
Unrestricted	664,334	552,092
Total	\$ 1,624,161	\$ 1,446,902

At June 30, 2016 and 2015, restricted for debt service includes approximately \$94.4 million and \$108.2 million, respectively, in collateral reserves related to its revenue bonds. The remaining amount relates to self-imposed restrictions for debt service.

9. Employee Benefit Plans

a. Defined Benefit Pension Plans

Plan Description

Substantially all eligible employees of the City are members of the ERS, a cost-sharing multiple-employer defined benefit pension plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88, and can be amended by legislative action. The ERS is composed of three classes, the contributory, the noncontributory and the hybrid retirement classes. Prior to July 1, 1984, the plan consisted of only a contributory class. In 1984, legislation was enacted to create a new noncontributory class for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security were precluded from the noncontributory class. The noncontributory class provides for reduced benefits and covers most eligible employees hired starting July 1, 1984. Employees hired before that date were allowed to continue under the

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

9. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plans (continued)

Plan Description (continued)

contributory class or to elect the new noncontributory class and receive a refund of employee contributions. In 2004, legislation was enacted to create a hybrid retirement class, which took effect July 1, 2006. Employees in the contributory and noncontributory class were given the option to join the hybrid class or to remain in their existing class effective July 1, 2006. Starting July 1, 2006, all new employees covered by social security are required to join the hybrid class.

All benefits vest after five or ten years of credited service. Vesting is determined by the employee's class and date of hire. The monthly retirement allowance benefit formula is calculated based on the employee's age, years of credited service, average final compensation (AFC) and multiplier.

For employees who became members prior to January 1, 1971 the AFC is the average salary earned during the five highest paid years of service, including the vacation payment or the average salary earned during the three highest paid years of service excluding any lump sum vacation payment. For employees who became members on January 1, 1971 through June 30, 2012, the AFC is based on the three highest paid years of service excluding the vacation payment. For employees who became members after June 30, 2012, the AFC is the highest five years excluding any lump sum vacation payment.

The ERS issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813 or found on the ERS website at <http://ers.hawaii.gov/resources/financials>.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

9. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plans (continued)

Contributions

General employees covered under the contributory class and hired prior to July 1, 2012, are required to contribute 7.80% of their salary and will receive pensions based on a 2.00% multiplier. General employees hired after June 30, 2012, are required to contribute 9.80% of their salary with pensions based on a 1.75% multiplier. General employees covered under the hybrid class prior to July 1, 2012 are required to contribute 6.00% of their salary and will receive pensions based on a 2.00% multiplier. General employees hired after June 30, 2012, are required to contribute 8.00% of their salary with pensions based on a 1.75% multiplier. Employees covered under the noncontributory class will receive pensions based on a 1.25% multiplier.

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The Sewer Fund's contribution requirements as of June 30, 2016 and 2015 were approximately \$7.5 million and \$7.6 million, respectively.

The City is required to contribute the remaining amounts necessary to pay contributory class benefits and all amounts necessary to pay noncontributory class benefits. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method.

Act 163/2011, which was effective July 1, 2012, established new employer contribution rates. The rates for fiscal years 2015 and 2016 are as follows:

<u>Effective Starting</u>	<u>General Employees (% of total payroll)</u>
July 1, 2014	16.5%
July 1, 2015	17.0%

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

9. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plans (continued)

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

At June 30, 2016 and 2015, the Sewer Fund reported a liability of \$88.7 million and \$90.3 million, 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 that date. The Sewer Fund's proportion of the net pension liability was based on a projection of the Sewer Fund's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of ERS, actuarially determined. At June 30, 2016, the City's proportion was 17.41%, which was an increase of 1.10% from its proportion measured as of June 30, 2014. At June 30, 2015, the City's proportion was 16.31% which was a decrease of 0.45% from its proportion measured as of June 30, 2013. The Sewer Fund's proportionate share of the City's proportionate share as of June 30, 2016 and 2015 was 5.83% and 6.91%, respectively.

For the fiscal year ended June 30, 2016 and 2015, the Sewer Fund recognized pension expense of \$7.5 million and \$10.2 million, respectively. At June 30, 2016, the Sewer Fund reported deferred outflows and inflows of resources related to pensions from the following sources (in thousands of dollars):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,108	\$ (2,042)
Net difference between projected and actual earnings on pension plan investments	-	(3,520)
Change of assumptions	2,366	-
Changes in proportion and differences between City contributions and proportionate share of contributions	2,694	(13,472)
City contributions subsequent to the measurement date	9,623	-
	<u>\$ 16,791</u>	<u>\$ (19,034)</u>

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

9. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plans (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (continued)

At June 30, 2015, the Sewer Fund reported deferred outflows and inflows of resources related to pensions from the following sources (in thousands of dollars):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 528	\$ (1,385)
Net difference between projected and actual earnings on pension plan investments	-	(12,839)
Changes in proportion and differences between City contributions and proportionate share of contributions	813	-
City contributions subsequent to the measurement date	<u>8,984</u>	<u>-</u>
	<u>\$ 10,325</u>	<u>\$ (14,224)</u>

\$9.6 million reported as deferred outflows of resources related to pension at June 30, 2016, resulting from Sewer Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows (in thousands of dollars):

Year Ended June 30:	
2017	\$ (3,422)
2018	(3,422)
2019	(3,422)
2020	(657)
2021	<u>(943)</u>
	<u>\$ (11,866)</u>

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

9. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plans (continued)

Actuarial Assumption

The total pension liability in the June 30, 2015 and 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Projected Salary Increases, Including Inflation	4.00% to 8.00%
Payroll Growth Rate	3.50%
Investment Rate of Return, Including Inflation	7.65% and 7.75%, respectively

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA.

Post-retirement mortality rates are based on client specific tables for general employees. Pre-retirement mortality rates are based on the RP-2000 Combined Mortality Table.

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

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

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

9. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plans (continued)

Actuarial Assumption (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return	
		2015	2014
Domestic equity	30%	8.5%	8.5%
International equity	26	9.3	9.0
Fixed income	20	3.1	3.1
Real estate	7*	9.2	8.5
Private equity	7*	11.9	11.8
Real return	5*	6.7	6.1
Covered calls	5	7.7	7.7
Total	100%		

*The real estate, private equity, and real return targets will be the percentage actually invested up to 7%, 7%, and 5%, respectively, of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2015 and 2014 was 7.65% and 7.75%, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

9. Employee Benefit Plans (continued)

a. Defined Benefit Pension Plans (continued)

Sensitivity of the Sewer Fund's proportionate share of the net pension liability to changes in the discount rate

The following presents the Sewer Fund's proportionate share of the net pension liability calculated using the single discount rate of 7.65%, as well as what the Sewer Fund's proportionate share of the net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rates (in thousands of dollars):

	1 percent Decrease <u>(6.65%)</u>	Current Discount Rate (7.65%)	1 percent Increase <u>(8.65%)</u>
Sewer Fund's proportionate share of the net pension liability	\$ 113,875	\$ 88,686	\$ 63,498

Pension Plan fiduciary net position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measureable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income. There were no significant changes after the June 30, 2015 measurement date.

Payables to the Pension Plan

The Sewer Fund had no outstanding payable to the Pension Plan as of June 30, 2016.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

9. Employee Benefit Plans (continued)

b. Post-Employment Healthcare and Life Insurance Benefits

The City contributes to the Hawaii Employer-Union Health Benefits Trust Fund (“EUTF”), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire. Act 88 established the EUTF during the State’s 2001 legislative session and is codified in Chapter 87A, HRS.

City Policy

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the City’s policy on the accounting and reporting for OPEB is to allocate a portion of the City’s Annual Required Contribution (“ARC”), interest, and any adjustment to the ARC, to proprietary funds that are reported separately in stand-alone financial statements or in the City’s CAFR. The basis for the allocation is the proportionate share of contributions made by each proprietary fund for retiree health benefits.

Allocated OPEB Cost

The Sewer Fund’s OPEB expense is allocated by the City based on the Sewer Fund’s proportionate share of contributions for retiree health benefits and was calculated at 6.3% and 6.7% of the City’s ARC for the fiscal years ended June 30, 2016 and 2015, respectively. The following table shows the components of the annual OPEB cost for the fiscal years ended June 30, 2016 and 2015, the amount contributed to the plan, and changes in the Sewer Fund’s net OPEB obligation (in thousands of dollars):

	2016	2015
Annual required contribution	\$ 9,664	\$ 9,754
Interest on net OPEB obligation	1,730	1,632
Adjustment to annual required contribution	(1,787)	(1,569)
Annual OPEB cost	9,607	9,817
Contributions made	(6,962)	(7,435)
Increase in net OPEB obligation	2,645	2,382
Net OPEB obligation:		
Beginning of year	23,278	20,896
End of year	\$ 25,923	\$ 23,278
Percentage of annual OPEB cost contributed	72.5%	75.7%

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

9. Employee Benefit Plans (continued)

b. Post-Employment Healthcare and Life Insurance Benefits (continued)

Allocated OPEB Cost (continued)

Contributions made to the plan were \$6.9 million, \$7.4 million and \$7.9 million for the fiscal years ended June 30, 2016, 2015 and 2014, respectively.

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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%, which was based on the City's anticipated funding level. Actuarial assumptions also included a blended annual health cost trend rate of 8.0% for 2016, reduced in decrements to an ultimate rate of 5.0% after eight years, and projected payroll increases of 3.5%. Actuarial assumptions also included an inflation rate of 3.0%, which was based on long-term expectations of inflation. The unfunded actuarial accrued liability is being amortized over a 30-year period as a level percentage of projected payroll on a closed basis.

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, 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

10. Management Agreement

The Board of Water Supply (“BWS”) has an agreement with the City’s Department of Environmental Services to provide certain services through June 30, 2017 for the billing and collection of sewer service charges. The revenue related to these fees is included in other operating revenues of BWS and the corresponding expense in the Sewer Fund. Service fees including credit card fees incurred amounted to \$3.9 million and \$3.4 million for the years ended June 30, 2016 and 2015, respectively, and is included on the statement of revenues, expenses and changes in net position as contractual services.

11. Commitments

a. Construction Contracts

The City has contractual commitments for the Sewer Fund of approximately \$427.4 million at June 30, 2016, primarily for construction contracts.

b. Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month, without limit. Sick leave is taken only in the event of illness and is not convertible to pay; accordingly, sick leave is not accrued. Employees who retire or leave government service in good standing with sixty or more unused sick leave days are entitled to an additional service credit in the retirement system. At June 30, 2016 and 2015, accumulated sick leave, including vested and nonvested accumulated rights to receive sick leave benefits, amounted to approximately \$20.9 million and \$19.8 million, respectively.

c. Deferred Compensation Plan

All full-time employees of the Sewer Fund are eligible to participate in the City and County of Honolulu’s Public Employees’ Deferred Compensation Program (“Plan”) adopted pursuant to Internal Revenue Code Section 457. The Plan permits eligible employees to defer a portion of their salary until future years by contributing to a fund managed by a plan administrator. 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. Deferred compensation plan assets are not reported in the accompanying financial statements.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

11. Commitments (continued)

d. EPA Consent Decree

The City is complying with the terms of a consent decree entered on December 17, 2010 (“2010 Consent Decree”), by the United States District Court for the District of Hawaii to resolve the claims of the United States Environmental Protection Agency (“EPA”), the State of Hawaii Department of Health (“DOH”), and various non-governmental entities related to the City’s compliance with the federal Clean Water Act and State law. The 2010 Consent Decree allows 10 years for completion of work on improvement to the collection system, 14 years for the upgrade of the Honouliuli Wastewater Treatment Plant (“WWTP”) to secondary treatment, and up to 25 years, with the possibility of a three-year extension, for the upgrade of the Sand Island WWTP to secondary treatment.

Upon entering the 2010 Consent Decree, the City was expected to incur, in 2010 dollars, approximately \$3.5 billion in capital costs through fiscal year 2020, which coincides with the term of the collection system portion of the 2010 Consent Decree. This amount will largely be spent on the collection system, and much of it will go toward work that was already required or planned. This amount also includes a portion of the costs of treatment plant upgrades at Sand Island and Honouliuli. Costs for the treatment plant upgrades include, in 2010 dollars, approximately \$550 million to replace primary treatment facilities at both plants and \$1.15 billion to upgrade the plants to secondary treatment plants.

In March 2012, after providing an opportunity for public comment, the court approved an order at the request of all parties to modify the 2010 Consent Decree to substitute construction of a Kaneohe-Kailua gravity tunnel and an associated influent pump station for the construction of a new force main between the City’s Kaneohe pump station and its Kailua treatment plant and to eliminate requirements to proceed with and maintain storage projects in Kaneohe and Kailua. The court order was the culmination of a year of negotiations among the parties after the EPA and DOH determined that the tunnel proposal offered potential environmental benefits. The Kaneohe-Kailua tunnel is presently under construction.

City and County of Honolulu, Sewer Fund

Notes to Financial Statements
June 30, 2016 and 2015

12. Subsequent Events

On August 17, 2016, the City issued wastewater system revenue bonds, Senior Series 2016A, 2016B and 2016C and Junior Series 2016A in the aggregate amount of \$448.2 million. The bonds mature annually on July 1, 2017 through July 1, 2046 and bear interest rates of 0.8% to 5.0%. Senior Series 2016A bonds maturing on or after July 1, 2017 to July 1, 2036 and Senior Series 2016B bonds maturing on July 1, 2027 through July 1, 2037 are subject to redemption, at the option of the City on or after July 1, 2026, in whole or in part at any time. The proceeds from the bonds will be used to pay for the costs of certain additions and improvements to the wastewater system and to refund a portion of outstanding wastewater system revenue bonds.

Required Supplementary Information

City and County of Honolulu, Sewer Fund

Schedule of City's Proportionate Share of the Net Pension Liability
 Fiscal Years 2013-2015
 (Amounts in Thousands)

Defined Benefit Plan

The following presents the Schedule of City's Proportionate Share of the Net Pension Liability for the City as a whole, of which the Sewer Fund is one of its various enterprise funds.

Fiscal Year Ended June 30,	Proportion of Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
2015	17.41%	\$ 1,520,530	\$ 578,043	263.05%	62.42%
2014	16.31%	\$ 1,307,396	\$ 536,304	243.78%	63.92%
2013	16.76%	\$ 1,496,794	\$ 509,130	293.99%	57.96%

Prior Fiscal Years are not available. Table will be built prospectively.

See Independent Auditor's Report.

City and County of Honolulu, Sewer Fund

Schedule of Contributions
 Fiscal Years 2012-2016
 (Amounts in Thousands)

Defined Benefit Plan

The following presents the Schedule of Contributions for the City as a whole, of which the Sewer Fund is one of its various enterprise funds.

Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to Statutorily Required Contribution	Contribution (Excess) Deficiency	Covered Payroll	Contribution as a Percentage of Covered Payroll
2016	\$ 135,217	\$ 129,245	\$ 5,972	\$ 599,494	21.56%
2015	\$ 121,465	\$ 132,308	\$ (10,843)	\$ 578,043	22.89%
2014	\$ 102,885	\$ 87,979	\$ 14,906	\$ 536,304	16.40%
2013	\$ 93,503	\$ 87,840	\$ 5,663	\$ 509,130	17.25%
2012	\$ 89,275	\$ 81,690	\$ 7,585	\$ 517,862	15.77%

Prior Fiscal Years are not available. Table will be built prospectively.

See Independent Auditor's Report.

City and County of Honolulu, Sewer Fund

Notes to Schedule of City's Proportionate Share of the Net Pension Liability
Fiscal Years 2013-2015

Contribution rates are a percentage of pensionable payroll and are set by statute based on the recommendation of the ERS actuary. Act 256/2007 established contribution rates beginning July 1, 2008 through June 30, 2012. Act 163/2011 established new contribution rates beginning July 1, 2012 through July 1, 2015. Contribution rates by year are as follows:

<u>Effective Starting</u>	<u>Police and Fire</u>	<u>General Employees</u>
July 1, 2015	25.0%	17.0%
July 1, 2014	24.0%	16.5%
July 1, 2013	23.0%	16.0%
July 1, 2012	22.0%	15.5%
July 1, 2011	19.7%	15.0%

Act 152/2012 amended the definition of compensation for new employees hired after June 30, 2012 for the purpose of pension benefit calculations. Compensation is defined as normal periodic payments and does not include overtime, supplemental payments, bonuses, lump sum salary differentials and other types of differentials. For employees hired prior to July 1, 2012 compensation includes overtime, supplemental payments, bonuses and other types of differentials for the purpose of pension benefit calculations.

Act 153/2012 requires employers to pay additional contributions for those employees who retire on or after July 1, 2012 with significant "non-base pay" increases in the three or five years used to calculate their average final compensation and maximum retirement allowances. The amount is determined by comparing the maximum retirement allowance that would have been received without the significant non-base pay increase to the actual maximum allowance. These amounts are assessed, on a fiscal year basis, for all retirees meeting the criteria during the previous fiscal year.

City and County of Honolulu, Sewer Fund

Schedule of Funding Progress

June 30, 2016

(Amounts in Thousands)

Post-Employment Healthcare and Life Insurance Benefits

The following presents the Schedule of Funding Progress for the City as a whole, of which the Sewer Fund is one of its various enterprise funds.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability ("AAL")</u>	<u>Unfunded AAL ("UAAL")</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2015	\$ 242,593	\$ 2,009,083	\$ 1,766,490	12.1%	\$ 613,054	288.1%
July 1, 2013	\$ 123,406	\$ 1,795,635	\$ 1,672,229	6.9%	\$ 551,642	303.1%
July 1, 2011	\$ 40,177	\$ 1,776,061	\$ 1,735,884	2.3%	\$ 548,355	316.6%

See Independent Auditor's Report.