NEW ISSUE
BOOK-ENTRY ONLY

RATINGS: Moody's: Aa2
Fitch: AA+
(See "Ratings" herein")

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Board, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Series 2012A Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. In the further opinion of Bond Counsel, interest on the Series 2012A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012A Bonds. See "TAX MATTERS" in this Official Statement.

$85,195,000
BOARD OF WATER SUPPLY
City and County of Honolulu
Water System Revenue Bonds
Series 2012A

Dated: Date of Delivery **Due: July 1, as shown on inside cover**

The Series 2012A Bonds are issuable in fully registered form in the denomination of $5,000 or any integral multiple thereof, and when initially issued will be registered in the name of Cede & Co., or its registered assigns, as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Series 2012A Bonds, purchases of the Series 2012A Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Series 2012A Bonds will not receive physical delivery of bond certificates; payment of the principal of and interest and any premium on the Series 2012A Bonds will be made by the Board of Water Supply (the "Board") of the City and County of Honolulu (the "City and County") directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants.

Interest on the Series 2012A Bonds is payable on July 1, 2012 and semiannually on each July 1 and January 1 thereafter. The Series 2012A Bonds are subject to optional redemption prior to the stated maturity thereof as described herein.

The Series 2012A Bonds will be issued by the Board under a Water System Revenue Bond Resolution, adopted April 26, 2001 by the Board, as supplemented (the "Resolution"), and will be payable and secured on a parity with the outstanding bonds issued and additional bonds to be issued (collectively, with the Series 2012A Bonds herein described, the "Bonds") under and pursuant to the Resolution to the extent provided in the Resolution as described herein.

The proceeds of the Series 2012A Bonds will be used: (i) to refund certain outstanding Water System Revenue Bonds heretofore issued by the Board pursuant to the Resolution; and (ii) to pay the costs of issuance of the Series 2012A Bonds.

All Bonds issued under and pursuant to the Resolution, including the Series 2012A Bonds, are special obligations of the Board payable solely from and secured by a pledge of proceeds of such Bonds held or set aside under the Resolution, the Net Revenues, and certain funds and accounts held under the Resolution, and are equally and ratably payable and secured except to the extent permitted in the Resolution. The Board has no taxing power. Bonds issued under and pursuant to the Resolution, including the Series 2012A Bonds, are not a general or moral obligation of the State of Hawaii or any political subdivision thereof, including the City and County, and the faith and credit of the State of Hawaii or any political subdivision thereof, including the City and County, are not pledged to the payment of the principal of or interest or any premium on the Bonds, and no holder of such Bonds shall have the right to compel the exercise of the taxing power of the State of Hawaii or any political subdivision thereof, including the City and County, in connection with any default with respect to such Bonds.

The Series 2012A Bonds are offered when, as and if issued and received by the Underwriter, and are subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Board. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii. It is expected that the Series 2012A Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about March 29, 2012.

BofA Merrill Lynch

Dated: March 14, 2012

$85,195,000
Water System Revenue Bonds,
Series 2012A

MATURITY SCHEDULE

Series 2012A Serial Bonds

Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP[†] (438689)
2012	$1,790,000	2.00%	0.20%	GS4
2013	860,000	3.00	0.33	GT2
2014	890,000	3.00	0.50	GU9
2015	915,000	3.00	0.78	GV7
2016	940,000	3.00	0.95	GW5
2017	970,000	3.00	1.18	GX3
2018	3,960,000	4.00	1.53	GY1
2019	4,140,000	5.00	1.80	GZ8
2020	2,320,000	5.00	2.07	HN4
2020	2,000,000	2.00	2.07	HA2
2021	6,865,000	5.00	2.27	HB0
2022	8,535,000	5.00	2.44	HC8
2023	3,605,000	5.00	2.61	HD6
2024	3,790,000	5.00	2.76	HE4
2025	3,980,000	5.00	2.84	HF1
2026	4,185,000	5.00	2.93	HG9
2027	4,390,000	4.50	3.11	HH7
2028	4,595,000	4.50	3.18	HJ3
2029	4,805,000	4.50	3.25	HK0
2030	5,025,000	4.50	3.32	HL8
2031	5,270,000	5.00	3.29	HM6
2032	5,540,000	5.00	3.36	HP9
2033	5,825,000	5.00	3.43	HQ7

Board of Water Supply
City and County of Honolulu

630 South Beretania Street
Honolulu, Hawaii 96843

BOARD OF DIRECTORS

Randall Y.S. Chung, Chairman
Mahealani Cypher, Vice Chair
Duane R. Miyashiro
Theresia C. McMurdo
Adam C. Wong
Glenn M. Okimoto, *Ex-Officio*
Westley K.C. Chun, *Ex-Officio*

Principal Officers of the Department

Ernest Y.W. Lau, Manager and Chief Engineer
Paul S. Kikuchi, Chief Financial Officer

Auditor

N&K CPAs, Inc.
Honolulu, Hawaii

CORPORATION COUNSEL

Robert Carson Godbey

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

The information contained in this Official Statement has been obtained from the Board of Water Supply of the City and County of Honolulu and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2012A Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2012A Bonds, and if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

THE SERIES 2012A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2012A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2012A BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

$85,195,000
Board of Water Supply
City and County of Honolulu
Water System Revenue Bonds
Series 2012A

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, the immediately preceding pages and the appendices hereto, provides certain information in connection with the issuance by the Board of Water Supply (the "Board") of the City and County of Honolulu (the "City and County") of $85,195,000 aggregate principal amount of Water System Revenue Bonds, Series 2012A (the "Series 2012A Bonds"). The Series 2012A Bonds are to be issued under and secured by the Water System Revenue Bond Resolution adopted by the Board on April 26, 2001 (the "Bond Resolution"), and the series resolution adopted by the Board on February 27, 2012 (the "2012 Series Resolution"). The Bond Resolution, as previously supplemented, as supplemented by the 2012 Series Resolution and as it may be further amended and supplemented, is referred to herein as the "Resolution." Terms not specifically defined herein shall have the meanings given to such terms in the Resolution. A summary of certain of such definitions is set forth under "Certain Definitions" in Appendix E.

The proceeds of the Series 2012A Bonds will be used: (i) to refund certain outstanding Water System Revenue Bonds heretofore issued by the Board pursuant to the Resolution; and (ii) to pay the costs of issuance of the Series 2012A Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS" herein.

The Series 2012A Bonds are the seventh series of Water System Revenue Bonds (collectively, including the Series 2012A Bonds, the "Bonds") issued under and pursuant to the Resolution and will be secured by and entitled to the protection of the Resolution, under which $285,165,000 of Bonds are currently outstanding. All Bonds issued under and pursuant to the Resolution, including the Series 2012A Bonds, are special obligations of the Board payable solely from and secured by a pledge of proceeds of such Bonds held or set aside under the Resolution, the Net Revenues, and certain funds and accounts established by the Resolution, and are equally and ratably payable and secured without priority, except that the Board may afford a particular Series of Bonds or particular Bonds additional or different security through a Support Facility, escrow funds, or the establishment of separate funds and accounts with respect to a particular series of Bonds funded from sources other than Revenues. **The Board has no taxing power. The Bonds issued under and pursuant to the Resolution are not a general or moral obligation of the State of Hawaii or any political subdivision thereof, including the City and County, and the faith and credit of the State of Hawaii or any political subdivision thereof, including the City and County, are not pledged to the payment of the principal of or interest or any premium on the Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power of the State of Hawaii or any political subdivision thereof, including the City and County, in connection with any default with respect to the Bonds. See "SECURITY FOR THE BONDS."**

The Board is the governing body of the Department of Water Supply (the "Department") of the City and County, created pursuant to the Revised Charter of the City and County (the "City Charter"). Pursuant to the City Charter, the Board has the full and complete authority to manage, control and operate the Water System, including all properties used or useful in connection with the Water System. The Board has been in existence since 1929. The City Charter and Chapter 49, Hawaii Revised Statutes (the "Act"), empower the Board, subject to the provisions of the Act and the City Charter, to issue revenue bonds in its name for the purposes of the Water System.

The Board, under the City Charter, has the power to fix and adjust reasonable rates and charges for the furnishing of water and for water services so that the revenues derived therefrom shall be sufficient to make the Water System self-supporting. Such rates are not subject to regulation by any governmental body or authority, including the City and County. See also "FINANCIAL INFORMATION—Recent Legislative Proposals" herein.

The Board has approved a schedule of rate increases to become effective in each of the Fiscal Years 2012-2016. See "FINANCIAL INFORMATION—Rates and Charges" herein for further information regarding such rate increases.

The Water System services 166,844 separate accounts and an estimated residential population of 953,207 on the island of Oahu. The service area is approximately 597 square miles. The customer base includes the residential population, businesses and industries, and agricultural users located in the supply area. Of the total accounts, 154,810 are residential (92.8%), representing 59.9% of the total amount received from water sales in Fiscal Year 2011; 11,149 are commercial and industrial (6.7%), representing 39.1% of the total amount received from water sales in Fiscal Year 2011; and 885 are agricultural (0.5%), representing 1.0% of the total amount received from water sales in Fiscal Year 2011. See Appendix A – "Economic and Demographic Factors."

This Official Statement contains brief descriptions of the Board, the Water System, the Board's Capital Improvement Program, the terms of the Series 2012A Bonds, the Resolution, and other information. The description of the Book-Entry Only System has been obtained from The Depository Trust Company. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete and each such document, statute, report or instrument is qualified in its entirety by reference to each such document, statute, report or instrument, copies of which are available from the Board. All references to the Series 2012A Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolution. The capitalization of any word herein not conventionally capitalized indicates that such word is defined in the Resolution or this Official Statement.

PLAN OF FINANCE

The Series 2012A Bonds are being issued to refund the principal amount of certain outstanding Water System Revenue Bonds previously issued by the Board under the Resolution, as identified in the following table (the "Refunded Bonds").

Refunded Bonds

Series	Maturity (July 1)	Principal Amount	Redemption Date	Redemption Price	CUSIP† (438689)
2001	2012	$ 60,000	March 29, 2012	100	FP1
2001	2012	750,000	March 29, 2012	100	FQ9
2001	2013	845,000	March 29, 2012	100	FR7
2001	2014	890,000	March 29, 2012	100	FS5
2001	2015	940,000	March 29, 2012	100	FT3
2001	2016	760,000	March 29, 2012	100	FU0
2001	2016	230,000	March 29, 2012	100	BY6
2001	2017	1,045,000	March 29, 2012	100	FV8
2001	2021	4,725,000	March 29, 2012	100	FW6
2004A	2018	2,970,000	July 1, 2014	100	DW8
2004A	2019	3,115,000	July 1, 2014	100	DX6
2004A	2020	3,265,000	July 1, 2014	100	DY4
2004A	2021	3,430,000	July 1, 2014	100	DZ1
2004A	2022	3,605,000	July 1, 2014	100	EA5
2004A	2023	3,790,000	July 1, 2014	100	EB3
2004A	2024	3,985,000	July 1, 2014	100	EC1
2004A	2025	4,185,000	July 1, 2014	100	ED9
2004A	2033	42,215,000	July 1, 2014	100	EE7
2006A	2021	2,355,000	July 1, 2016	100	EU1
2006A	2022	5,120,000	July 1, 2016	100	EV9

A portion of the proceeds of the Series 2012A Bonds will be deposited with Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"), for the purpose of refunding the Refunded Bonds. Such deposit will be made pursuant to an Escrow Agreement (the "Escrow Agreement") to be entered into by the Board and the Escrow Agent. Pursuant to the Escrow Agreement, the amount so deposited will be held by the Escrow Agent in a special segregated escrow fund (the "Escrow Fund") for the sole benefit of the holders of the Refunded Bonds and will be used to pay the principal or redemption price of and interest on the Refunded Bonds. Pending such application, moneys on deposit in the Escrow Fund will be invested in certain non-callable direct obligations of the United States of America (the "Escrow Fund Investments") payable as to principal and interest at the times and in the amounts necessary to pay, when due, the interest on and principal of all Refunded Bonds.

In connection with the issuance of the Series 2012A Bonds and the refunding of the Refunded Bonds, the Board will obtain a verification report from Causey Demgen & Moore, Inc., independent certified public accountants, as to the mathematical accuracy of certain computations pertaining to the Escrow Fund and the Series 2012A Bonds. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein for a further discussion of such verification report.

SOURCES AND USES OF PROCEEDS

The estimated sources and uses of the proceeds of the 2012A Bonds are set forth below:

Sources of Funds:	
Par Amount of Series 2012A Bonds	$85,195,000.00
Plus Net Original Issue Premium	13,314,168.50
Total Sources of Funds	**$98,509,168.50**
Uses of Funds:	
Deposit to Escrow Fund	$97,821,826.14
Costs of Issuance*	687,342.36
Total Uses of Funds	**$98,509,168.50**

* *Includes Underwriter's discount and other legal and financial costs incurred in connection with the issuance and delivery of the Series 2012A Bonds.*

THE SERIES 2012A BONDS

General

The Series 2012A Bonds will be dated the date of their issuance and delivery and will mature, subject to the redemption provisions described below, in the amounts and on the dates set forth on the inside cover of this Official Statement. Interest will accrue on the Series 2012A Bonds from the date of their issuance and will be due and payable semiannually on January 1 and July 1 of each year, commencing July 1, 2012. The Series 2012A Bonds will be issued in fully registered form.

Principal of the Series 2012A Bonds will be payable at the office of the Department of Budget and Fiscal Services of the City and County, as paying agent (the "Paying Agent"). Interest on the Series 2012A Bonds will be payable to Holders thereof registered as of the close of business on the Record Date, which, for the Series 2012A Bonds is the fifteenth (15^{th}) day (whether or not a Business Day) of the month preceding an interest payment date.

As described below under "Book-Entry System," and in Appendix F – "Book-Entry System," when issued, the Series 2012A Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, Cede & Co., is the registered owner of all of the Series 2012A Bonds, all payments on the Series 2012A Bonds will be made directly to DTC.

The Board may deem and treat the person in whose name any Series 2012A Bonds shall be registered upon the books of the Board as the absolute owner thereof, whether such Series 2012A Bonds shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of, the premium, if any, and the interest on, the Series 2012A Bonds and for all other purposes, and all such payments shall be valid and effectual to satisfy and discharge the liability upon such Series 2012A Bonds to the extent of the sums so paid and the Board shall not be affected by any notice to the contrary.

Redemption of the Bonds

The Series 2012A Bonds maturing on and after July 1, 2023, are subject to redemption prior to maturity at the option of the Board, on or after July 1, 2022, in any order of maturity, as a whole or in part at any time, and, if in part, by lot within a maturity, at a Redemption Price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the date of redemption.

Notice of Redemption

The Paying Agent will mail notice of redemption not fewer than 30 days prior to the redemption date, by registered, certified or regular first-class mail, to the Holder of such Bond of record as of the 45th day (whether or not a business day) next preceding the date fixed for redemption at his address as it appears on the Bond Registry. Except as otherwise provided in the Resolution, at the sole option of the Board, such notice may also be published in an Authorized Newspaper as provided in the Resolution not fewer than 30 days prior to the redemption date. Failure to receive such notice by any Holder of a Bond, or any defect in any notice so mailed, shall not affect the sufficiency of the proceedings for the redemption of any such Bonds.

Any notice of redemption may state that such redemption may be conditional upon the receipt by the Paying Agent on the date fixed for redemption of moneys sufficient to pay in full the redemption price of the Series 2012A Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Series 2012A Bonds proposed to be redeemed shall not be received on or prior to the date fixed for redemption, such notice of redemption shall be null and void and of no force and effect and the Board shall not redeem or be obligated to redeem any Series 2012A Bonds. In the event of the failure to redeem, all Series 2012A Bonds surrendered for redemption shall be promptly returned to the holder or holders by the Paying Agent.

See Appendix F – "Book-Entry System" for information regarding notices of redemption while DTC is acting as securities depository for the Series 2012A Bonds.

Book-Entry System

The Series 2012A Bonds will be delivered in book-entry form only, in denominations of $5,000 or any integral multiple thereof, and, when issued and authenticated, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Series 2012A Bonds. Individual purchases of the Series 2012A Bonds will be made only in book-entry form. Purchasers of the Series 2012A Bonds will not receive physical certificates representing their ownership interests in the Series 2012A Bonds purchased. Principal of and interest on the Series 2012A Bonds are payable directly to DTC by the Paying Agent. Upon receipt of payments of principal and interest, DTC will distribute such payments to brokers and dealers who are DTC participants who, in turn, will distribute payments to the beneficial owners of the Series 2012A Bonds. See Appendix F – "Book-Entry System" attached hereto.

SECURITY FOR THE BONDS

General

The Bonds issued under and pursuant to the Resolution, including the Series 2012A Bonds, are special obligations of the Board secured by and entitled to the protection of the Resolution, and are equally and ratably payable and secured without priority, except that the Board may afford a particular Series of Bonds or particular Bonds additional or different security through a Support Facility, escrow funds, a separate reserve account or the establishment of other separate funds and accounts with respect to a particular Series of Bonds funded from sources other than Net Revenues. **The Bonds are not a general or moral obligation of the State of Hawaii or any political subdivision thereof, including the City and County, and the faith and credit of the State of Hawaii or any political subdivision thereof, including the City and County, are not pledged to the payment of the principal of or interest or any premium on the Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power of the State of Hawaii or any political subdivision thereof, including the City and County, in connection with any default with respect to the Bonds. The Board has no taxing power.**

Pursuant to the Resolution the Board has pledged, for the security and payment of the Bonds, proceeds of the Bonds held or set aside under the Resolution, the Net Revenues, and all funds and accounts held under the Resolution other than the Rebate Account, the Subordinate Obligation Fund, the Reimbursable Obligation Fund, any Series Reserve Account (in the case of any Bonds not entitled to the security of such Account), and the Common Reserve Account (in the case of any Bonds not entitled to the security of such Account). "Net Revenues" under the Resolution means the Revenues during any period less the amounts required to pay Operation and Maintenance Expenses. "Revenues" under the Resolution means the moneys, including any moneys collected from the City and County or any department thereof except the Board, derived by the Board from the rates, rentals, fees and charges prescribed for the use and services of, and the facilities and commodities furnished by, the Water System, including all income, receipts, profits and other moneys derived from the sale of water and from the furnishing or supplying of the services, facilities and commodities through the Water System; all income from investments of moneys held under the Resolution including investment income on the Improvement Fund but not including any earnings on the Rebate Account, the Subordinate Obligation Fund and the Reimbursable Obligation Fund; all payments made by Counterparties pursuant to Interest Rate Exchange Agreements; and moneys and Investment Securities transferred from the Rate Stabilization Account to the Operating Fund within 90 days following the end of a Fiscal Year. Certain other items do not constitute Revenues, such as contributions in-aid-of construction and assessment, impact and other similar fees and gifts, grants, and donations.

The pledge for the security and payment of the Bonds under the Resolution is superior to any pledge and security interest for Subordinate Obligations and Reimbursable Obligations. "Subordinate Obligations" are any bonds, notes or other evidences of indebtedness of the Board payable from Net Revenues, other than the Bonds and Reimbursable Obligations, issued in accordance with and complying with applicable provisions of the Resolution. "Reimbursable Obligations" are reimbursable general obligation bonds issued and delivered or to be hereafter issued and delivered by the City and County to finance certain costs related to the Water System, the debt service on which the Board is required by State law to reimburse the City and County's General Fund. The Board currently has approximately $23,417,000 of outstanding Subordinate Obligations, which consist mainly of state revolving fund loans. No Reimbursable Obligations are currently outstanding.

The 2012A Bonds will constitute Bonds under the Resolution and, notwithstanding the time of their authentication and delivery or maturity, all Bonds will be secured equally by the pledges created by and covenants of the Board made in the Resolution, without preference, priority or distinction of any such Bond over any other such Bond, except as expressly provided in or permitted by the Resolution. Bonds are currently outstanding under the Resolution in the aggregate principal amount of $285,165,000. The Board expects to issue additional Bonds under the Resolution on a parity with the outstanding Bonds and the Series 2012A Bonds.

Funds and Accounts

The various funds and accounts established under the Resolution, the flow of Revenues through such funds and accounts, the rights and remedies of Bondholders under the Resolution and other related matters are summarized in Appendix E – "Summary of Certain Provisions of the Resolution."

The City and County has previously established in its Treasury the Board of Water Supply Operating Fund (the "Operating Fund"), into which all Revenues collected by the Board have been and will continue to be deposited, and from which operating expenses of the Board have been and will continue to be paid. The Resolution creates in the Operating Fund a Rate Stabilization Account and a Rebate Account, and also creates, in addition to the Operating Fund, the following Funds and Accounts:

- Debt Service Fund, and the Payment Account, the Common Reserve Account and any Series Reserve Account therein;
- Subordinate Obligation Fund;
- Reimbursable Obligation Fund;
- Renewal and Replacement Fund;
- General Fund; and
- Improvement Fund, and any Series Improvement Account and any Series Capitalized Interest Account therein.

The Rate Stabilization Account, the Payment Account, the Renewal and Replacement Fund, the General Fund and the Improvement Fund are pledged as security for the payment of debt service on all Bonds, subject to the terms and provisions of and the exceptions provided in the Resolution. The Common Reserve Account is pledged as additional security for the payment of debt service on the Bonds of any Series designated at the time of issuance to be entitled to the benefit of the Common Reserve Account; and each Series Reserve Account is pledged as additional security for the payment of debt service on the Bonds of a Series designated at the time of issuance to be entitled to the benefit of such Series Reserve Account.

Debt service on Bonds is payable from the Payment Account in the Debt Service Fund. In the event of a deficiency in the Payment Account, debt service on a Bond is payable from the Common Reserve Account or the applicable Series Reserve Account, but only to the extent such Bond is entitled to the benefit of such reserve account, as more fully described below under “Reserve Accounts.”

Moneys deposited and retained in the Operating Fund may be maintained in an amount which is reasonably necessary for working capital and reserves. The Rate Stabilization Account is to be maintained in the amount provided for in the Annual Budget, is to be used to stabilize the rates and charges of the Water System, and is to be funded (i) from Net Revenues (after payment and provision for Operation and Maintenance Expenses), but only after all transfers to the other Funds and Accounts required by the Resolution, and (ii) from transfers from the General Fund. The Renewal and Replacement Fund is to be maintained in an amount provided for in the Annual Budget and is to be used to pay the costs of improvements and repairs to and renewals and replacements of the Water System, as provided in the Resolution, and to meet deficiencies in certain other Funds and Accounts. Amounts in the General Fund are to be used to meet deficiencies in certain other Funds and Accounts, to pay the Costs of Improvements, for transfer to the Rate Stabilization Account, to purchase Bonds, or for any other lawful purpose of the Board.

The Rebate Account, the Subordinate Obligation Fund and the Reimbursable Obligation Fund are not pledged as security for the Bonds. Amounts in the Rebate Account are to be used to pay required amounts to the Department of the Treasury of the United States in respect of the Bonds. Amounts in the Subordinate Obligation Fund and the Reimbursable Obligation Fund are to be used to pay debt service on Subordinate Obligations and Reimbursable Obligations, respectively.

Amounts on deposit in the Improvement Fund are to be applied to pay Costs of Improvements to the Water System and to pay capitalized interest on the Bonds. The Resolution permits the establishment within the Improvement Fund of one or more Series Improvement Accounts and one or more Series Capitalized Interest Accounts. Proceeds of Bonds are to be deposited in the Improvement Fund or a Series Improvement Account pending application to pay the Costs of Improvements; provided that such proceeds which are to be used to pay capitalized interest on such Bonds must be deposited in a Series Capitalized Interest Account.

Reserve Accounts

Common Reserve Account. The Resolution establishes a Common Reserve Account and permits the Board to designate one or more Series of Bonds to be entitled to the benefit of such Account. The Series 2012A Bonds are entitled to the benefit of the Common Reserve Account. The Common Reserve Account is required to be maintained in an amount not less than the “Common Reserve Account Requirement,” which is an amount equal to the Aggregate Debt Service for the then current or any future Fiscal Year on all Outstanding Bonds entitled to the benefit of the Common Reserve Account; provided, however, that if, upon issuance of a Series of Bonds entitled to the benefit of the Common Reserve Account, such amount would require moneys to be deposited in the Common Reserve Account from such Bond proceeds in an amount in excess of the maximum amount permitted under the Code, the Common Reserve Account Requirement shall mean an amount equal to the sum of the Common Reserve Account Requirement immediately preceding issuance of such Bonds and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, as certified by an Authorized Officer of the Board. The Resolution further provides that in determining the Common Reserve Account Requirement with respect to Bonds which bear variable interest rates ("Variable Rate Bonds"), Aggregate Debt Service shall be computed by using the Assumed Long-Term Fixed Rate applicable thereto.

In lieu of cash or securities, the Resolution permits the Board to satisfy the Common Reserve Account Requirement in part or in whole by causing to be deposited into the Common Reserve Account a Support Facility (which may be any instrument entered into or obtained in connection with a Series of Bonds such as a letter of credit, insurance policy, surety bond, loan agreements, standby purchase agreement, guaranty or similar instrument, or any combination of the foregoing, and issued by a bank or banks, or other financial institution or institutions, or any combination of the foregoing) in an amount equal to the difference between the Common Reserve Account Requirement and the sums then on deposit in the Common Reserve Account, if any. Any Support Facility deposited in the Common Reserve Account or the long-term debt of the issuer of any Support Facility deposited in the Common Reserve Account must, in each case, be rated in the highest Rating Category of each of two Rating Agencies and, if rated by A.M. Best & Company or its successors ("A.M. Best"), shall also be in the highest Rating Category of A.M. Best. In the event any Support Facility deposited in the Common Reserve Account or the long-term debt of the issuer of any Support Facility deposited in the Common Reserve Account is reduced below the highest Rating Category of any Rating Agency and A.M. Best if rated by A.M. Best, the Board shall, within 120 days, obtain a new Support Facility which is rated, or which is issued by an issuer whose long-term debt is rated, in the highest Rating Category of each of two Rating Agencies and A.M. Best if rated by A.M. Best; provided, however, that if the new Support Facility is not obtained within 120 days, the Board must deposit in the Common Reserve Account Net Revenues in the amount provided in the Resolution. If a disbursement is made pursuant to a Support Facility deposited in the Common Reserve Account, the Board must either: (i) reinstate the full amount of such Support Facility; (ii) deposit Net Revenues in the Common Reserve Account in the amount of the disbursement made under such Support Facility; or (iii) take a combination of actions set forth in clauses (i) and (ii), such that the amount in the Common Reserve Account will equal the Common Reserve Account Requirement within a period of time not longer than would be required to restore the Common Reserve Account by application of moneys in the Operating Fund.

The Common Reserve Account Requirement was initially satisfied by the deposit of Support Facilities deposited into the Common Reserve Account pursuant to the Resolution. However, in Fiscal Year 2009, the Board deposited cash into the Common Reserve Account to replace certain Support Facilities on deposit therein which fell below the highest Rating Category of each Rating Agency. As a result, the Common Reserve Account Requirement is currently fully funded with cash. Although replaced for purposes of meeting the Common Reserve Account Requirement, the Support Facilities remain on deposit in the Common Reserve Account.

If at any time the amounts on deposit in the Payment Account are insufficient to pay Bondholders the principal or Redemption Price of and interest on the Bonds entitled to the benefit of the Common Reserve Account, moneys in the Common Reserve Account would be applied to the deficiency by the Board and if a deficiency were to still exist, draws or claims would be made under any Support Facility held in the Common Reserve Account. See also "—Proposed Amendments to Resolution" herein.

Series Reserve Accounts. The Resolution permits the establishment of a Series Reserve Account to provide additional security for the Bonds of a Series which is not entitled to the benefit of the Common Reserve Account. In the event of a deficiency in the Payment Account to pay debt service on Bonds of a Series entitled to the benefit of a Series Reserve Account, the amounts held in such Series Reserve Account are to be used exclusively to pay such debt service. The amount to be maintained in any such Series Reserve Account for a Series of Bonds, and the credit quality of a Support Facility to be deposited in any such Series Reserve Account, are to be determined at the time such Bonds are authorized or sold. No Series Reserve Account has been established for the Series 2012A Bonds.

Transfers to Reserve Accounts. The Resolution requires that in each month, after paying and setting aside an amount sufficient to pay the Operation and Maintenance Expenses for such month, and after transfer to the Payment Account an amount equal to debt service to accrue on the Bonds in such month, amounts remaining on deposit in the Operating Fund are to be transferred *pro rata* to the Common Reserve Account and each Series Reserve Account in such amounts as are required so that the balances in such Accounts equal their respective reserve account requirements, or, at the election of the Board, an amount sufficient to eliminate at least one-sixth of the deficiency in each such Account.

Rate Covenant

The Board is required by the Resolution, among other things, to fix, charge and collect such rates and other charges as are required in order that in each Fiscal Year the Net Revenues shall be not less than the Net Revenue Requirement for such Fiscal Year (the "Rate Covenant"). The Net Revenue Requirement means with respect to any Fiscal Year or any other period, an amount equal to the greater of: (i) the sum of the Aggregate Debt Service in such Fiscal Year or such period and the deposits required by the Resolution to be made into the Common Reserve Account, each Series Reserve Account, the Subordinate Obligation Fund and the Reimbursable Obligation Fund and to pay Support Facility Reimbursement Obligations in such Fiscal Year or such period, or (ii) 1.20 times the maximum Aggregate Debt Service in such Fiscal Year or such period plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding at the end of such Fiscal Year or such period. Aggregate Debt Service means, for any period and as of any date of computation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds. Support Facility Reimbursement Obligations are obligations of the Board to reimburse the issuer of a Support Facility or the counterparty of an Interest Rate Exchange Agreement for amounts paid under such Support Facility or such agreement. See Appendix E – "Summary of Certain Provisions of the Resolution" and "Certain Definitions" therein.

The Manager and Chief Engineer of the Board (the "Manager") is required under the Resolution prior to the end of each Fiscal Year to complete a review of the financial condition of the Department for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the Rate Covenant and must by Written Certificate make a determination with respect thereto. If the Manager determines that the Revenues may not be so sufficient, the Manager or the Board shall forthwith make, or cause a consulting engineer to make, a study for the purpose of determining a schedule of fees, rates and charges which, in the opinion of the Manager, the Board or the consulting engineer, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with the Rate Covenant and will cause additional Revenues to be collected in such following and later Fiscal Years sufficient to eliminate the amount of any deficiency at the earliest practicable time. The Board will as promptly as practicable, but no later than 120 days following such determination by the Manager or the Board, or receipt of the consulting engineer's recommendation, adopt and place in effect such schedule of fees, rates and charges as so determined or recommended. Failure by the Board to comply with the Rate Covenant in any Fiscal Year will not constitute an Event of Default under the Resolution, so long as the Board promptly adopts the schedule of rates and charges as so determined or recommended. See "FINANCIAL INFORMATION—Historical and Projected Revenue, Expenses and Debt Service Coverage" for a discussion of the Board's projected rates, revenues and expenses and rate-setting procedures.

Additional Bonds and Refunding Bonds

The Resolution permits the issuance of additional Series of Bonds (exclusive of Refunding Bonds) ("Additional Bonds") for any lawful use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the conditions set forth in the Resolution, which conditions are summarized in Appendix E under "Additional Bonds and Refunding Bonds." Among other things, such conditions require delivery to the Director of Budget and Fiscal Services of a Written Certificate of the Board demonstrating the satisfaction of certain Net Revenue requirements.

The Resolution also permits the issuance of Bonds to refund all or any part of: (i) a Series of Outstanding Bonds; (ii) Subordinate Obligations; or (iii) Reimbursable Obligations ("Refunding Bonds"). Refunding Bonds may be issued by the Board upon satisfaction of the same conditions as required for the issuance of Additional Bonds, except that the Written Certificate described in the preceding paragraph need not be provided if the maximum annual Debt Service in any Fiscal Year on the Refunding Bonds proposed to be issued does not exceed the maximum annual Debt Service in any Fiscal Year on the refunded Bonds by more than 10%.

Additional Bonds and Refunding Bonds, when issued, will constitute Bonds under the Resolution and will be secured equally without preference, priority or distinction of any such Bond over any other such Bond except as expressly provided in or permitted by the Resolution by the pledges created by and covenants of the Board made in the Resolution.

Bonds may be issued as Variable Rate Bonds, Fixed Rate Bonds, Capital Appreciation Bonds, Deferred Interest Bonds, and Option Bonds which provide the right to the owners thereof to tender their Bonds for redemption or purchase prior to maturity, or any combination thereof. Bonds may be issued or outstanding from time to time with or without credit enhancement provisions. See "Certain Definitions" in Appendix E.

The Resolution also permits the issuance of notes in anticipation of a Series of Bonds if the Board has theretofore authorized the issuance of such Bonds. The principal of such notes may be paid from the proceeds of such notes (or any renewal thereof) or from the proceeds of the Bonds in anticipation of which such notes are issued. The interest on such notes may be secured by a lien on and pledge of, and be paid from, the Net Revenues on a parity with the lien on and pledge of the Net Revenues for the payment and security of the Bonds. A more detailed description of the provisions for security for payment of such notes and other requirements relating to the issuance of notes is set forth in Appendix E under "Bond Anticipation Notes."

Proposed Amendments to Resolution

Under the current provisions of the Resolution, the Common Reserve Account Requirement is defined as an amount equal to the Aggregate Debt Service for the then current or any future Fiscal Year on all Outstanding Bonds entitled to the benefit of the Common Reserve Account, subject to specified exceptions required for compliance with the Internal Revenue Code. The Board proposes to amend this definition to provide that the Common Reserve Account Requirement will be equal to one-half of the Aggregate Debt Service for the then current or any future Fiscal Year on all Outstanding Bonds entitled to the benefit of the Common Reserve Account, subject to specified exceptions required for compliance with the Internal Revenue Code. Such proposed amendment to the definition of Common Reserve Account Requirement, which requires the consent of the Holders of all Outstanding Bonds, reads as follows:

> *"Common Reserve Account Requirement"* means, as of any date of computation, an amount equal to one-half (1/2) of the greatest amount of Aggregate Debt Service for the then current or any future Fiscal Year on all Outstanding Bonds entitled to the benefit of the Common Reserve Account; provided, however, that if upon issuance of a Series of Bonds entitled to the benefit of the Common Reserve Account, such amount would require moneys to be credited to the Common Reserve Account from such Bond proceeds in an amount in excess of the maximum amount permitted under the Code, the Common Reserve Account Requirement shall mean an amount equal to the sum of the Common Reserve Account Requirement immediately preceding issuance of such Bonds and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Bonds, as certified by an Authorized Officer; and provided further that for purposes of this definition, Aggregate Debt Service shall be computed with respect to each Variable Rate Bond entitled to the benefit of the Common Reserve Account by using the Assumed Long-Term Fixed Rate applicable thereto."

In connection with the proposed amendment to the definition of the Common Reserve Account Requirement, the Board also proposes to amend Section 3.04(A) of the Resolution to read in its entirety as follows:

> "Any Support Facility deposited in the Common Reserve Account or the long-term debt of the Support Facility Provider of such Support Facility shall, in each case, be rated in one of the two highest Rating Categories of any of the Rating Agencies at the time of initial deposit thereof. If a disbursement is made pursuant to a Support Facility deposited in the Common Reserve Account, the Board shall: first, reinstate the full amount of such Support Facility; and second, if necessary deposit Net Revenues in the Common Reserve Account in the amount of the disbursement made

under such Support Facility, in either case such that the amount in the Common Reserve Account shall equal the Common Reserve Account Requirement within a period of time not longer than would be required to restore the Common Reserve Account by application of moneys in the Operating Fund. The Board may at any time deposit cash or Investment Securities as replacement for one or more Support Facilities."

Under the terms of the Resolution, the proposed amendments will not go into effect until such time as the Board has obtained the consents of the Holders of all Outstanding Bonds. See Appendix E – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Amending and Supplementing of Resolution—*Amendment of Resolution With Consent of Holders of Bonds.*" BY PURCHASING SERIES 2012A BONDS, THE HOLDERS THEREOF SHALL BE DEEMED TO HAVE CONSENTED TO THE PROPOSED AMENDMENTS, AND SUCH CONSENT WILL BE BINDING ON ALL SUCCESSIVE HOLDERS OF THE SERIES 2012A BONDS. Upon the issuance of the Series 2012A Bonds, there will be $285,165,000 of Bonds Outstanding, of which $85,195,000 (representing the Series 2012A Bonds) will be deemed to have consented to the proposed amendments.

DEBT SERVICE REQUIREMENTS FOR THE BONDS

Fiscal Year Ending June 30*	Debt Service on Outstanding Bonds**	Principal of 2012A Bonds	Interest on 2012A Bonds	Debt Service on 2012A Bonds	Total Debt Service on All Bonds
2012	$20,780,711.25	$ --	$ --	$ --	$20,780,711.25
2013	15,611,877.49	1,790,000.00	2,944,538.89	4,734,538.89	20,346,416.38
2014	15,614,002.49	860,000.00	3,872,175.00	4,732,175.00	20,346,177.49
2015	15,612,352.49	890,000.00	3,845,925.00	4,735,925.00	20,348,277.49
2016	15,617,152.49	915,000.00	3,818,850.00	4,733,850.00	20,351,002.49
2017	15,617,327.49	940,000.00	3,791,025.00	4,731,025.00	20,348,352.49
2018	15,616,168.12	970,000.00	3,762,375.00	4,732,375.00	20,348,543.12
2019	12,721,292.50	3,960,000.00	3,668,625.00	7,628,625.00	20,349,917.50
2020	12,722,323.13	4,140,000.00	3,485,925.00	7,625,925.00	20,348,248.13
2021	12,724,820.00	4,320,000.00	3,304,425.00	7,624,425.00	20,349,245.00
2022	10,427,591.25	6,865,000.00	3,054,800.00	9,919,800.00	20,347,391.25
2023	9,327,262.50	8,535,000.00	2,669,800.00	11,204,800.00	20,532,062.50
2024	14,565,550.00	3,605,000.00	2,366,300.00	5,971,300.00	20,536,850.00
2025	14,557,100.00	3,790,000.00	2,181,425.00	5,971,425.00	20,528,525.00
2026	14,553,462.50	3,980,000.00	1,987,175.00	5,967,175.00	20,520,637.50
2027	14,551,462.50	4,185,000.00	1,783,050.00	5,968,050.00	20,519,512.50
2028	14,546,400.00	4,390,000.00	1,579,650.00	5,969,650.00	20,516,050.00
2029	14,541,325.00	4,595,000.00	1,377,487.50	5,972,487.50	20,513,812.50
2030	14,535,925.00	4,805,000.00	1,165,987.50	5,970,987.50	20,506,912.50
2031	14,536,062.50	5,025,000.00	944,812.50	5,969,812.50	20,505,875.00
2032	14,525,668.75	5,270,000.00	700,000.00	5,970,000.00	20,495,668.75
2033	10,291,000.00	5,540,000.00	429,750.00	5,969,750.00	16,260,750.00
2034	10,289,500.00	5,825,000.00	145,625.00	5,970,625.00	16,260,125.00
2035	10,286,500.00	--	--	--	10,286,500.00
2036	10,290,750.00	--	--	--	10,290,750.00
2037	10,291,000.00	--	--	--	10,291,000.00
Total:	**$354,754,587.45**	**$85,195,000.00**	**$52,879,726.39**	**$138,074,726.39**	**$492,829,313.84**

* *Based on payments not on accruals.*

** *Amounts shown exclude debt service on Refunded Bonds.*

THE BOARD AND THE DEPARTMENT

Purpose and Powers

Board of Water Supply. The Board consists of seven members. The Chief Engineer of the Department of Facility Maintenance of the City and County and the Director of Transportation of the State of Hawaii are *ex-officio* members of the Board and serve as such for the respective terms of their offices. The other five members of the Board are appointed by the Mayor of the City and County and confirmed by the Council of the City and County. Pursuant to the City Charter, the Board has the power, among other things: (i) to appoint and remove the Manager and Chief Engineer of the Department; (ii) to fix the salary of the Manager and Chief Engineer; (iii) to create and abolish positions; (iv) to determine the policy for construction, additions, extensions and improvements to the water systems of the City and County, including a long range capital improvement program; (v) to acquire by eminent domain, purchase, lease or otherwise, in the name of the City and County, all real property or any interest therein necessary for the construction, maintenance, repair, extension or operation of the water systems of the City and County; (vi) to recommend to the Council the sale, exchange or transfer of real property or interest therein which is under the control of the Department; (vii) to enter into arrangements and agreements, as it deems proper for the joint use of poles, conduits, towers, stations, aqueducts and reservoirs, for the operation of any of the properties under its management and control; (viii) to issue revenue bonds under the name of the "board of water supply"; (ix) to modify, if necessary, and approve and adopt annual operating and capital budgets submitted by the Manager and Chief Engineer; (x) to prescribe and enforce rules and regulations having the force and effect of law to carry out the provisions of this article of the City Charter; and (xi) to hear appeals from the order of the Manager and Chief Engineer refusing, suspending or revoking permits. The Board is the governing body of the Department of Water Supply.

Department of Water Supply. Pursuant to the City Charter, the Department consists of the Board, the Manager and Chief Engineer of the Board (the "Manager") and the necessary staff. All water systems owned and operated by the City and County, including all City and County water rights and water sources, together with all materials, supplies and equipment and all real and personal property used in connection with such water systems are under the control of the Department.

General; Rates and Charges. The City Charter requires that the revenues of the Department be kept in a separate fund and be such as to make the Water System self-supporting. Consistent with such requirement, the Department is budgeted as a self-sustaining enterprise fund for the purpose of determining costs associated with providing water services. Through the process of adopting an annual operating budget, the revenue requirements and water rates are reviewed to determine the adequacy of revenues to meet needs.

The adoption, amendment and repeal of all rules of the Board, including rates and charges of the Water System, are pursuant to the City Charter. The Board, pursuant to the City Charter, has the power to fix and adjust reasonable rates and charges for the furnishing of water and for water services so that the revenues derived therefrom shall be sufficient to make the Water System self-supporting. Rates and charges are determined on the basis of a recommendation by the Manager, subject to approval by the Board. Such rates are not subject to regulation by any governmental body or authority, including the City and County.

See "FINANCIAL INFORMATION—Recent Legislative Proposals" regarding City Council Resolution 12-25 which would repeal Article VII of the City Charter and transfer the powers, duties and functions of the Board to a Department of Water Supply under the executive branch of the City and County.

Board Members

The following are brief biographies of the Members of the Board:

Randall Y.S. Chung – Chairman. Mr. Chung has helped provide leadership to the Board as a member since March 2005, and as its Chairman beginning in July 2005. He is currently senior partner and lead trial counsel with the Honolulu law firm, Chung & Ikehara, a Law Corporation. Over his 30-year career as a litigator and mediator, Mr. Chung has established a successful record of jury verdicts for the defense in personal injury cases handled for most of the major insurers in the State of Hawaii. He is a graduate of the University of Hawaii at Manoa, with a Bachelor of Science degree in Biology, and received his Juris Doctorate from the University of Southern California.

Mahealani Cypher – Vice-Chair. Ms. Cypher has served as a Board member since February 2011. Currently an active community volunteer, she also owns Native Knowledge LLC, offering consultation on native Hawaiian issues, historic preservation and Hawaiian perspectives on planning and conservation. Ms. Cypher was employed as City Clerk of the City and County of Honolulu from 2003 to 2008. Prior to that, she worked in the Board's Community Relations Office from 1981 to 2003, serving as chief of community relations from 1990 to 2003. A graduate of St. Andrew's Priory, she studied journalism and business at Woodbury College in Los Angeles, and journalism at the University of Hawaii at Manoa.

Theresia McMurdo – Member. Ms. McMurdo began her association with the Board as a member in February 2010. Ms. McMurdo is currently a director of Cetra Technology, a computer services company. She previously served as the Vice President of Public Affairs with Kapolei Property Development, an affiliate of the James Campbell Company, one of Hawaii's largest private companies. Before becoming Vice President of Public Affairs, she was Public Relations Manager for the James Campbell Company where she established award-winning community programs and developed charitable funds such as the James and Abigail Campbell Foundation. She is a graduate of the University of Hawaii at Manoa where she earned her bachelor's degree in Journalism and Communication, a Certificate in International Management, and an Executive Masters of Business Administration degree.

Adam Wong – Member. Mr. Wong has been a Board member since February 2010. Mr. Wong recently founded ACW Ventures, a diversified investment firm that focuses on local private equity and real estate opportunities. The firm looks to acquire or invest in both startup and operating companies in a multitude of industries, as well as develop sustainable yet profitable real estate based projects. Prior to this, Mr. Wong gained experience through various entrepreneurial activities including stints as Vice President and Equity Partner in a local hotel development firm. He is a graduate of Iolani School and of the University of California, Los Angeles, where he earned bachelor's degrees in European Studies with a specialization in Business Administration.

Duane R. Miyashiro – Member. Mr. Miyashiro joined the Board in August 2011. He is a partner and the Chair of the Litigation and Dispute Resolution Group at Carlsmith Ball LLP, one of Hawaii's largest and oldest law firms. He represents clients in civil litigation, including complex commercial and real estate disputes. He was previously a police officer with the Honolulu Police Department, and is a member of the American Judicature Society and serves as an arbitrator for the Hawaii Circuit Court. Miyashiro is a graduate of Maryknoll High School. He attended the University of Hawaii at Manoa, where he obtained a Bachelor's Degree in Psychology. He received his Juris Doctor Degree from the University of San Francisco School of Law.

Glenn M. Okimoto, Ph.D. – Member, Ex-Officio. Dr. Okimoto has been an ex-officio Board member since January 2011 in his capacity as the Director of the State Department of Transportation. The agency oversees and manages the State's 15 airports, 10 commercial harbors, and approximately 2,500 lane miles of roadways. Dr. Okimoto is the former Budget Director of the University of Hawaii System where he was responsible for overseeing the preparation and execution of the University's operating budget and assisting in its administration. Dr. Okimoto is a graduate of Mid-Pacific Institute in Honolulu. He earned his bachelor's, master's, and doctoral degree in Agriculture and Resource Economics from the University of Hawaii at Manoa.

Westley K.C. Chun, Ph.D., P.E. – Member, Ex-Officio. Dr. Chun has been an ex-officio Board member since February 2011 in his capacity as the Director of the City and County of Honolulu, Department of Facility Maintenance. The department is responsible for the repair and maintenance of streets, bridges, walkways, street lighting, flood control systems, vehicle and construction equipment fleet (except for police, fire, and emergency services operations), and buildings and adjoining parking facilities of the City and County. Dr. Chun was a client service and senior project manager for CH2M HILL, a full-service global engineering, construction and operations firm. Most recently, he worked as a Civil Engineer for the U.S. Army Corps of Engineers in northern Afghanistan in support of "Operation Enduring Freedom." Dr. Chun graduated from the University of Hawaii with a bachelor's degree and from the University of California at Davis with master's and Ph.D. degrees in civil engineering.

Principal Officers

The principal officers of the Department include the Manager, the Deputy Manager and Chief Engineer, and five (5) Officers (Chief Financial Officer, Chief Information Officer, Chief Human Resources Officer, Chief Communications Officer, and Chief Security Officer). The Officers have oversight responsibility for the various operating units in the Department and report directly to the Manager and Deputy. The Officer positions were created under a reorganization in 2003 to respond to new directions and endeavors of the Department.

The Manager is appointed and evaluated by the Board, and may be removed by the Board. The Manager must be a registered engineer and must have a minimum of five years of training and experience in waterworks activities or related fields, at least three of which shall have been in a responsible administrative capacity. The powers, duties and functions of the Manager include: (i) administering the affairs of the Department, including the rules and regulations adopted by the Board; (ii) granting, suspending or revoking permits under conditions prescribed by the rules and regulations of the Department; (iii) unless otherwise provided by the City Charter, signing all necessary contracts for the Department; (iv) appointing and removing members of the staff; (v) making recommendations to the Board to create or abolish positions; (vi) preparing bills, collecting and, by appropriate means including the discontinuance of service and civil action, enforcing the collection of charges for the furnishing of water and for water services; (vii) preparing payrolls and pension rolls; (viii) maintaining proper accounts in such manner as to show the true and complete financial status of the Department and the results of management and operation thereof; (ix) preparing annual operating and capital budgets; (x) prescribing rules and regulations as are necessary for the organization and internal management of the Department; and (xi) recommending rules and regulations for adoption by the Board.

The following are brief biographies of the Department's Manager and Chief Engineer and Chief Financial Officer:

Ernest Y.W. Lau – Manager and Chief Engineer. Mr. Lau is the tenth manager and chief engineer of the Board of Water Supply. As manager, he is responsible for the overall strategic direction and management of the Board, with a focus on furthering the Department's mission to provide a safe and dependable water supply, now and into the future. Mr. Lau assumed this position on February 1, 2012. He previously served as the administrator of the Public Works Division under the State Department of Accounting and General Services, where he oversaw the planning, coordinating, directing, and controlling of a statewide program of engineering, architectural, and construction services. Mr. Lau previously worked as Deputy Director of the State Commission on Water Resource Management, Department of Land and Natural Resources. He also served as the Manager and Chief Engineer of the Kauai Department of Water from 1996 to 2003 and as Deputy Manager from 1995 to 1996. Prior to that position, he worked for the Board of Water Supply for more than 14 years as an engineer in Long Range Planning and Water Systems Planning.

Paul S. Kikuchi – Chief Financial Officer. Mr. Kikuchi has served in his present position since 2006 and is responsible for overseeing the financial and accounting functions of the Board. His work experience includes 21 years at the University of Hawaii where he served in various capacities, including division head of federal compliance, personnel officer, procurement specialist, accounting specialist and fiscal officer. Most recently he was the Director of Accounting and Loan Collections. Mr. Kikuchi has a Bachelor of Business Administration degree from the University of Hawaii.

Work Force

The Department employs approximately 517 persons in various managerial, clerical, engineering, information technology, and operational positions. Of these employees, 30 are excluded from collective bargaining and four are appointed and exempt from civil service. The remaining employees are included in five public employee unions: bargaining unit 1 (BU1) – blue collar non-supervisory; BU2 – blue collar supervisory; BU3 – white collar non-supervisory; BU4 – white collar supervisory; and BU13 – professional and scientific employees. Currently, all collective bargaining agreements terminate on June 30, 2013.

The Hawai`i Constitution grants public employees in the State the right to organize for the purpose of collective bargaining. Chapter 89, Hawai`i Revised Statutes, provides for 13 recognized BUs for all employees throughout the State. Each BU has a designated exclusive representative and negotiates with the relevant public employer(s), consisting of representatives from the State, City and County of Honolulu, counties of Hawai`i, Maui and Kauai, and the Judiciary.

For BU1, if an impasse exists over terms of a renewed agreement, the parties may participate in voluntary resolution. If the impasse continues for more than 20 days, the parties must attend mediation. If the matter is not resolved after the 50th day of impasse, either party may take any lawful action to end the dispute, which could include an employee strike.

For BUs 2, 3, 4 and 13, if any impasse exists over terms of a renewed agreement, the parties must attend mediation during the first 20 days after impasse. If the impasse continues beyond 20 days, a three-member arbitration panel is appointed and the matter is resolved through final and binding arbitration. Any item requiring the expenditure of monies must be subject to appropriation through the respective employers' legislative bodies.

The Board continues to strive toward improving customer service and achieving greater operational efficiencies, responsiveness and effectiveness. The Department is committed to ensuring the sustainability of Oahu's water resources and its organization. Toward these ends, the Department continues to establish a performance and accountability culture at all levels of the organization.

Reference is made to "FINANCIAL INFORMATION – Employee Benefits" herein for a discussion of health care benefits, pension benefits and other post-employment benefits for which Department employees are eligible.

THE WATER SYSTEM

The Water System services 166,844 separate accounts and an estimated residential population of 953,207. The service area is approximately 597 square miles. The customer base includes the residential population, businesses and industries, and agricultural users located in the supply area. Of the total accounts, 154,810 are residential (92.8%), representing 59.9% of the total amount received from water sales in Fiscal Year 2011; 11,149 are commercial and industrial (6.7%), representing 39.1% of the total amount received from water sales in Fiscal Year 2011; and 885 are agricultural (0.5%), representing 1.0% of the total amount received from water sales in Fiscal Year 2011. The Department's uncollectible accounts from operating revenues in Fiscal Year 2011 were $311,032 or approximately 0.21% of total operating revenues. All numbered tables provided herein have been compiled by the Board unless otherwise stated.

General Description of Existing Systems

The City and County of Honolulu consists of the island of Oahu and waters adjacent thereto and a number of outlying islands. The island of Oahu is divided by the Board into the following seven water use districts for administrative and planning purposes: Honolulu, Windward, Waialua-Kahuku, Wahiawa, Pearl Harbor, Ewa and Waianae.

Water use district boundaries generally coincide with the boundaries of judicial districts. Additionally, under the State Water Code (Hawaii Revised Statutes, Chapter 174C), certain geographic areas, sometimes encompassing several water use districts and sometimes portions thereof, have been designated as "Water Management Areas" which requires management of ground water resources. Currently, all water use districts, except the Waianae water use district, fall within a Water Management Area.

Descriptions of the geographic areas of the water use districts are as follows:

Honolulu. The Honolulu water use district includes the coastal plain of southeastern Oahu upon which the City of Honolulu is located and stretches from Makapuu Point at its eastern extremity to the western boundary of the Moanalua drainage divide. Bounded on the north by the crest of the Koolau Range, the area comprises a total of 88 square miles. This area is coextensive with the Honolulu Judicial District and has been designated the Honolulu Water Management Area.

Windward. The Windward water use district comprises 104 square miles and extends from Makapuu Point to Malaekahana Stream at Laie. The northerly half of this district is characterized by rugged mountains, deep valleys, and a narrow coastal plain. The district has been designated the Windward Water Management Area.

Waialua-Kahuku. The Waialua-Kahuku water district comprises 140 square miles of north-northwestern Oahu. Its ocean boundary traces any arc from the town of Kahuku north to Kahuku Point, then southwestward past Waimea Bay and Waialua Bay to Kaena Point. Its inland boundaries range from Malaekahana Valley and the crest of the Koolau Range in the east, along the boundary of the Waialua and Wahiawa Judicial Districts on the south, and westerly along the crest of the Waianae Range to Kaena Point. The Waialua Judicial District portion of this water use district has been designated the North Water Management Area.

Wahiawa. The Wahiawa water use district, located in central Oahu, is a 40 square mile landlocked rectangle, stretching from the crest of the Koolau Range across the apex of the Schofield Plateau to the crest of the Waianae Range. The area has been designated the Central Water Management Area and is coextensive with the Wahiawa Judicial District.

Pearl Harbor. The Pearl Harbor water use district, in south-central Oahu, contains 105 square miles. The district extends from the crest of the Koolau Range westerly to Kunia Road and the shoreline of Pearl Harbor. It is bounded by the Wahiawa and Honolulu water use districts to the north and south. This district and the Ewa water use district together have been designated the Pearl Harbor Water Management Area.

Ewa. Located in the southwest quadrant of Oahu, the Ewa water use district covers an area of 69 square miles. Except for the southern slopes of the Waianae Range, which extend into the area, much of the land is gently sloping or nearly level. The Pearl Harbor and Ewa water use districts together have been designated the Pearl Harbor Water Management Area.

Waianae. The Waianae water use district, encompassing 63 square miles of leeward Oahu, comprises all of the area west of the crest of the Waianae Range to the sea coast. It terminates on the north at Kaena Point and includes Nanakuli Valley at its southernmost boundary. This area coincides with the Waianae Judicial District. This district is the only water use district that has not been designated a Water Management Area.

Description of Existing Facilities by Type

The Water System is comprised of source, storage, transmission and distribution facilities for potable, non-potable and recycled water.

Potable Water. The existing source facilities for potable water consist of 94 active potable water source stations with 190 source pumps. The current State-authorized permitted use of these facilities is 182 million gallons per day ("mgd"). The average pumpage, current permitted use, and pump capacity for each water district for Fiscal Year 2011 are listed in the following table:

Table 1
Source Facilities
(Volumes in mgd)

Water District	Average Pumpage	Current Permitted Use	Pump Capacity
Honolulu	70.30	89.12	184.46
Windward	15.55	20.03	27.53
Pearl Harbor	33.34	56.27	156.96
Ewa	9.01	8.22	16.63
Waianae	4.08	--*	10.08
Wahiawa	3.12	4.27	15.12
Waialua-Kahuku	3.68	4.08	11.58
Total Oahu	139.08	182.00	422.36

* *Waianae has no permitted use because the district is not designated as a water management area.*

The existing potable water storage facilities, exclusive of dams and reservoirs, consist of 170 separate structures built principally of concrete and steel. The aggregate storage capacity is 182 million gallons.

The existing transmission and distribution facilities for potable water consist of approximately 2,100 miles of various types and sizes of water mains. Water main diameters vary from 4 inches to 42 inches and are either cast iron, ductile iron, concrete cylinder, polyvinyl chloride, asbestos cement or polyethylene.

The existing booster pump stations for potable water consist of 90 pump stations with 191 booster pumps. There are also twelve granular activated carbon potable water treatment facilities at existing pump stations that treat more than 20 mgd.

Non-Potable and Recycled Water. The existing brackish non-potable water facilities consist of six sources, three storage facilities, and 20 miles of transmission and distribution mains ranging in diameter from 6 inches to 24 inches. The existing recycled water facilities consist of a reclamation facility at the Honouliuli Wastewater Treatment Plant (operated via a contract by Veolia Water North America), four storage facilities, and 35 miles of transmission and distribution mains ranging in diameter from 8 inches to 24 inches.

Number of Meters by Meter Size and Services by Class

The following two tables list historical information regarding the average number of meters and services of the Water System by meter size and class during Fiscal Years 2007 through 2011. As shown, the majority of the customers of the City and County’s water services were residential and used either a 5/8” or 3/4” meter size.

Table 2
Number of Meters by Meter Size
Fiscal Years 2007-2011

	Number of Services				
Meter Size	**2007***	**2008**	**2009***	**2010**	**2011**
5/8”..	77,435	77,353	76,650	76,733	76,409
3/4”..	72,930	72,857	74,661	74,742	75,584
1”..	8,089	8,081	8,120	8,129	8,139
1-1/2”	3,187	3,184	3,206	3,209	3,223
2”	4,286	4,286	4,255	4,260	4,286
3”	560	560	522	523	519
4”	738	737	740	741	743
6”	794	793	811	812	819
8”	927	926	980	981	999
10”...	-	-	-	-	-
12”...	11	11	11	11	11
Total	168,957	168,788	169,956	170,141	170,732

* *Figures are estimated.*

Table 3
Number of Services by Customer Class
Fiscal Years 2007-2011

Customer Class	**2007**	**2008**	**2009**	**2010**	**2011**
Residential	153,158	153,547	154,051	154,431	154,810
Commercial/Industrial	11,056	11,121	11,125	11,109	11,149
Agricultural	855	866	869	882	885
Total	165,069	164,668	166,045	166,422	166,844

Table 4
Estimated Water Sales and Revenues by Customer Class
Fiscal Years 2007-2011

	2007	**2008**	**2009**	**2010**	**2011**
Water Sales (thousand gallons)					
Residential	30,658,032	30,778,663	28,919,094	29,507,147	28,681,907
Commercial	18,241,433	18,444,887	16,444,744	18,019,161	17,800,693
Industrial	3,148,937	3,322,165	3,198,948	3,238,596	3,119,659
Agricultural	1,248,911	1,195,100	1,140,191	1,241,985	1,172,811
Total	53,297,313	53,740,815	49,702,977	52,006,889	50,775,070
Water Revenues					
Residential	$ 67,844,727	$ 77,151,516	$ 81,025,400	$ 87,931,530	$ 88,431,590
Commercial	39,826,945	44,971,973	48,132,600	52,961,083	52,487,759
Industrial	4,838,677	4,749,964	4,766,600	5,951,237	5,246,973
Agricultural	1,120,029	1,250,514	1,318,600	1,600,435	1,561,774
Total	$113,630,378	$128,123,967	$135,243,200	$148,444,285	$147,728,096

Rainfall Data

The table below lists the average annual rainfall for various areas served by the Water System.

Table 5
Board of Water Supply Rainfall Stations
Annual Rainfall (inches)
Calendar Years 2006-2010

Station	2006	2007	2008	2009	2010	10-Year Average (2001-2010)
Beretania Station	36	26	21	15	22	24
Haiku	135	75	73	92	76	86
Kaimuki Station	10	18	13	7	14	16
Upper Kalihi Valley	151	75	96	110	110	117
Kalihi Shaft	44	37	33	23	31	37
Keeaumoku	36	34	29	21	40	30
Lower Luakaha	114	104	94	89	103	107
Moanalua	80	78	73	56	73	79
Nuuanu Reservoir No. 4	90	95	104	91	83	101
Nuuanu Reservoir No. 5	78	94	87	68	84	79
Pacific Heights	55	66	56	37	52	56
Palolo Valley	122	102	90	97	108	113
Pauoa Flats	154	149	131	127	139	148
Waihee Valley	131	75	64	78	81	90
Wilhelmina Rise	44	44	37	32	16	41

Selected Statistics

Listed below is certain selected statistical information concerning the Water System.

Table 6
Selected Statistics of the Water System
Fiscal Years 2007-2011

	2007	2008	2009	2010	2011
Estimated Population*	921,885	930,903	939,920	948,937	956,168
Number of Meters Billed	168,957**	168,788	169,956**	170,141	170,732
Est. Persons Per Meter	5.46**	5.52	5.53**	5.58	5.60
Annual Pumpage (Gallons)	55,366,123,000	54,105,382,000	52,744,857,000	53,839,243,000	50,764,937,000
Annual Water Billed (Gallons)	53,297,313,000	53,740,815,000	49,702,977,000	52,006,889,000	50,775,070,000
Average Daily Pumpage (Gallons)	151,688,000	147,829,000	144,506,000	147,505,000	139,082,000
Peak Day Pumpage (Gallons) (Single Day)	186,038,000	175,885,000	178,859,000	170,850,000	157,050,000
Average Daily Production Per Meter (Gallons)	898**	876	850**	867	815
Total Capacity of Well Pumping (Gallons Per Day)	399,857,000,000	399,857,000,000	399,857,000,000	399,857,000,000	399,857,000,000
Storage Capacity (Gallons)	181,970,000	181,970,000	181,970,000	181,970,000	181,970,000
Number of Miles of Lines	2,060	2,067	2,077	2,080	2,095

* *Includes all persons physically present regardless of place of residence and includes visitors but excludes residents temporarily absent.*

** *Figures are estimated.*

Operation and Maintenance

It is the belief of the Board that the Water System is well operated and maintained. The Board performs routine preventive maintenance in addition to yearly replacement and upgrading of existing water facilities and infrastructures.

The Board supports several preventive maintenance programs. These include the Leak Detection Program which detects and repairs system leaks before they become potentially damaging main breaks; the 20 Year Meter Replacement Program which replaces 20-year old displacement type meters for the seven water use districts; and the Galvanized Service Lateral Renewal Program which replaces old and leaking galvanized service laterals with corrosion resistant copper pipe. In addition, the Board repairs, test and right sizes large meters, including those serving the Board's 200 highest users, inspects and services fire hydrants, gate valves and air relief valves and provides daily round-the-clock trouble call and emergency repair services.

To decrease the incidence of main breaks and leaks, the Board has budgeted in the current Fiscal Year 2011, $4.5 million for the repair and replacement of older pipelines.

To ensure that its remaining facilities, including pump stations and wells, are in good repair, the Board continues to provide annual funding for the repair and replacement of facilities, including $264 million budgeted for this purpose in the current Fiscal Year.

Water Loss Rate

The Board has developed an Infrastructure Conservation program aimed at achieving resource sustainability by addressing water loss within the BWS distribution system. The program involves water auditing and water loss control which determines geographical areas of losses and the associated amount of losses. The water loss rate or leakage in the Water System was determined by the Board to be 12.5% in Fiscal Year 2010. The efforts undertaken by this program will improve the Board's ability to anticipate potential problems with water service and reduce the number of main breaks and property damage caused by leaks or compromised pipes.

State Water Use Authorization

The State Commission on Water Resource Management established sustainable yields for Oahu's groundwater aquifers, whereby authorized uses and pumpage cannot be exceeded. Sustainable yield is defined by Chapter 174C, HRS, as the maximum rate at which water may be withdrawn from a source without impairing the utility or quality of the water source. State Water Use Authorization is a water resource management system that allocates water to various types of groundwater and surface water uses, such as municipal, agricultural, military and private uses. The authorized allocation or permitted use is based on average day demand and is the 12-month moving average production limit that cannot be exceeded for each water source. The State can reallocate any non-use of permitted allocation longer than 4 years to other more immediate uses.

Oahu's groundwater sustainable yield is 407 mgd, of which 293.9 mgd was permitted in 2009. The current authorized use for the Board is 182.0 mgd and is sufficient to meet existing use and long-term growth on Oahu.

Water Quality

The Safe Drinking Water Act (SDWA) is the principal federal law in the United States intended to ensure that the public has safe drinking water. The Act applies to all public water systems and requires the United States Environmental Protection Agency (EPA) to set national standards for drinking water quality and enforce the implementation of those standards by all states. The standards consist of maximum limits for contaminants that may be found in drinking water and include specific monitoring, treatment, reporting and enforcement requirements.

Public water system compliance with the national drinking water standards is administered primarily by states that have been given primacy authority by the EPA to implement and enforce the SDWA within their jurisdictions. In Hawaii, the State Department of Health is the primacy agency and the Board is a public water system under the SDWA and State regulations.

Presently, the Board complies with all federal and state drinking water regulations. Each year the Board conducts more than 25,000 water quality tests on samples collected from its water sources, distribution system and treatment facilities to insure all water served is safe to drink. The Board also monitors, assesses and prepares for the impacts of proposed new regulations and keeps abreast of emerging contaminant issues of concern to its operations. CIP projects, new equipment acquisitions, treatment operations, design and construction are developed and implemented in consultation with water quality to ensure the Board's compliance with the SDWA.

Water Conservation

The Board has implemented a water conservation program that addresses the following four areas: nonpotable water and alternate sources of water; legislation, rules, and rates; water audits, leak elimination, and technical services; and education and behavior modification. Since Fiscal Year 1990 when the Board accelerated its emphasis on water conservation, the water conservation program has resulted in a decrease of 16 percent in the per capita consumption from 188 gallons per capita per day ("gpcd") in 1990 to 157 gpcd in 2010.

Evaluation of Water System

The Board has conducted an evaluation of the existing facilities of the Water System. Based on such evaluation, the Board has developed a five-year capital improvement program to repair and replace aging infrastructure, adequately serve anticipated growth in water demand, provide and maintain adequate reliability of service, and comply with all Federal and State regulations.

Security Measures

The Board's emergency response plan is continually monitored as the Board reviews enhancements to strengthen its facilities. The Board maintains 24-hour guard service at the two largest staffed facilities.

CAPITAL IMPROVEMENT PROGRAM

To meet future user needs, comply with water quality regulations which are expected to take effect in the next several years, and provide adequate reliability of service to the Water System's users, the Board has adopted a five-year capital improvement program for Fiscal Years 2012 through 2016. The following discussion presents certain summary information regarding the Board's capital improvement program.

The capital improvement program for Fiscal Years 2012 through 2016 is estimated to cost approximately \$329 million. The new projects include approximately \$182 million of pipeline projects and approximately \$147 million in facilities projects, as set forth on the following table:

Table 7
Capital Improvement Program
New Projects
Fiscal Years 2012-2016
(Dollars in Thousands)

Project Description	Amount
Potable Water Projects	
General	$ 33,770
Source	63,146
Storage	30,019
Treatment	19,569
Transmission	182,254
Subtotal	$328,757
Non-Potable Water Projects	275
Recycled Water Projects	--
Total Capital Improvement Program	$329,032

In addition to these new projects, the capital improvement program includes an additional $76.4 million of projects already in progress that are scheduled for completion during this five-year period, for a total of approximately $375 million.

Based on the construction and payment cycles for the Board's projects (typically, a four-year cycle), it is anticipated that a portion of the projects commenced during the Fiscal Year 2012-2016 period will not be fully completed during the period. As a result, it is expected that capital expenditures for the new and ongoing projects will total approximately $214 million during this period. The remaining project costs will be paid in subsequent years as the work on continuing projects proceeds to completion. The following table presents the Board's anticipated capital improvement program expenditures over the five-year period.

Table 8
Capital Improvement Program Expenditures
Fiscal Years 2012-2016
(Dollars in Thousands)

Fiscal Year	Program Expenditures
2012	$ 36,808
2013	36,335
2014	52,098
2015	44,332
2016	44,457
Total:	$214,029

The costs associated with the new and ongoing projects will be funded by a combination of sources, including operating revenues, State revolving fund loans and water system facility charges. The Board does not currently expect to issue additional bonds to fund the capital improvement program.

The Board has approved rate increases for Fiscal Years 2012-2016 to pay the principal of and interest on Bonds issued to finance the capital improvement program, to provide funds for operating, maintenance and capital requirements, and to perform all acts required pursuant to the covenants in the Resolution. See "FINANCIAL INFORMATION—Rates and Charges" and "—Historical and Projected Revenues, Expenses and Debt Service Coverage" herein.

FINANCIAL INFORMATION

Major Users

The ten largest users served by the Water System, in terms of annual billings for the Fiscal Year ended June 30, 2011, are set forth in the table below.

Table 9
Ten Largest Users
(as of June 30, 2011)

Name	Annual Water Sales (1,000s Gals.)	Estimated Revenues	Percentage of Total Water Sales
State of Hawaii	3,591,524	$10,956,277	7.49%
City and County of Honolulu	3,486,673	8,562,478	5.85%
United States Government	1,282,945	4,041,221	2.76%
Chevron USA (refinery)	561,738	1,716,283	1.17%
Hilton Hotels	328,577	1,034,752	0.71%
Kalaeloa Partners (independent power producer)	221,452	831,765	0.57%
Tesoro Hawaii (refinery)	152,746	607,238	0.42%
Atsugi Kokusai (golf course owner)	146,383	461,190	0.32%
Sheraton Waikiki Hotels	142,924	450,539	0.31%
Hawaiian Electric Company	138,880	558,903	0.38%
Total	10,053,842	$29,220,646	19.97%

Rates and Charges

The Department is budgeted as a self-sustaining enterprise fund for the purpose of determining costs associated with providing water services. Through the adoption of the annual operating budget process, the revenue requirements and water rates are reviewed to determine the adequacy of revenues. The Board has the power to fix and adjust reasonable rates and charges for the furnishing of water and for water services so that the revenues derived therefrom are sufficient to make the Water System self-supporting. Rates and charges are determined on the basis of a recommendation by the Manager, subject to approval by the Board. Such rates are not subject to regulation by any governmental body or authority, including the City and County.

On May 15, 2006, after 11 years of no rate increases, the Board approved a schedule of rate increases of 13%, 12%, 10%, 8% and 5% for Fiscal Years 2007 through 2011, respectively. The initial rate increase was implemented on October 1, 2006 and subsequent rate increases were implemented on July 1 of Fiscal Years 2007 through 2011. The rate increases are applied uniformly to all charges and rates for all customer classes.

On November 28, 2011, the Board approved further increases of 9.65% annually for Fiscal Years 2012 through 2016. The initial 9.65% rate increase took effect on January 1, 2012 and subsequent 9.65% rate increases are scheduled to take effect on July 1 of Fiscal Years 2013 through 2016. The rate increases apply uniformly to all charges and rates for all customer classes.

The Board has discretion to defer the amount of any rate increase before it is implemented. Senior management has advised that it is currently evaluating a potential deferral of the scheduled July 1, 2012 rate increase to reflect a possible change in the timing of the Department's capital improvement program that would have the effect of delaying certain program expenditures planned for Fiscal Year 2013. Such a deferral of the rate increase would require Board approval. Such a deferral, if approved, would reduce the projected operating revenues and debt service coverage ratios shown on Table 17, and the related change in the capital improvement program would affect the program expenditures described under "CAPITAL IMPROVEMENT PROGRAM" above and shown in Tables

7 and 8. However, senior management believes that such a deferral would not adversely affect the Board's ability to satisfy its rate covenant under the Resolution.

In addition, when total electricity costs to the Board exceed the amount used in calculating the annual schedule of rates and charges, then the quantity charge may be increased $0.01 per 1,000 gallons for every $600,000 incremental overage, or any fraction thereof, in the following fiscal year rate. The quantity charge also may be increased $0.01 per 1,000 gallons for each $600,000 or fraction thereof of additional costs that the Board is required to incur in order to comply with any federal or state environmental law or regulation. These adjustment factors, which are included in the Board's schedule of rates and charges for Fiscal Years 2012 through 2016, would not be affected by the potential deferral of the scheduled July 1, 2012 rate increase.

Current Rate Schedules

The following table describes the base rates in effect as of January 1, 2012. Reference is made to "Rates and Charges" above for a discussion of the rate increases adopted by the Board for Fiscal Years 2012-2016.

Table 10
Rate Schedules

Billing Charge	**Rate**
Billing charge each time a bill is rendered:	$6.40
Quantity Charge	
Charge for all water drawn for each 1,000 gallons effective as follows:	
Single Family Residential	
Monthly Charge Per Unit	
Block 1 (Gallons) First 13,000 or any part thereof	$3.06
Block 2 (Gallons) 13,001 to 30,000 or any part thereof	3.68
Block 3 (Gallons) Over 30,000	5.49
Multi-Family Residential	
Monthly Charge per Unit	
Block 1 (Gallons) First 9,000 or any part thereof	$3.06
Block 2 (Gallons) 9,001 to 22,000 or any part thereof	3.68
Block 3 (Gallons) Over 22,000	5.49
Non-Residential All usage	3.43
Agricultural	
Monthly Charge Per Account	
Block 1 (Gallons) First 13,000 or any part thereof	$3.06
Block 2 (Gallons) Over 13,000	1.31
Non-Potable All usage	1.71

Billing and Collection Practices

Customers pay a fixed billing charge each time a bill is rendered as well as quantity charges for the Board's water services. Under the current rate schedule, residential customers are billed under an inverted block rate structure in which the quantity charge per 1,000 gallons increases as consumption moves through each of three usage blocks. Non-residential and non-potable customers are billed under a uniform rate structure. Agricultural customers are billed under a declining block rate structure.

Charges are billed to the consumer and are the responsibility of the consumer.

The Board performs all meter reading services in connection with the Water System. Meters are read and bills rendered monthly or bimonthly, as determined by the Board. The Board currently expects to begin billing residential accounts on a monthly basis in Fiscal Year 2013.

Payment is delinquent if not made within 30 days after presentation of the bill to the consumer. Water service may be discontinued on delinquent accounts upon at least five business days' written notice to the consumer.

The Board also provides billing services for the water departments of Kauai County and Maui County and the City and County's Department of Environmental Services (wastewater system), and has a memorandum of understanding with the Department of Environmental Services to provide non-water based billing services.

Collections

The Department's uncollectible accounts from operating revenues for the past five fiscal years, together with such accounts' percentage of total operating revenues, are reflected in the following table:

Table 11
Aggregate Dollar Amount of Uncollectible Accounts
Fiscal Years 2007-2011

Fiscal Year	Aggregate Dollar Amount of Uncollectible Accounts	Percentage of Total Operating Revenues
2007	$199,412	0.17%
2008	113,826	0.09
2009	158,021	0.11
2010	297,332	0.20
2011	311,032	0.21

Water Rates in the Four Counties

The following table shows the average monthly residential water bills in the four counties in the State as of January 1, 2012. No conclusions regarding operations in a particular community or comparisons between communities should be drawn from such table.

Table 12
Average Residential Monthly Water Bills
in the Four Counties of the State

Kauai County	$65.73
Hawaii County	$62.14
Maui County	$43.60
City and County of Honolulu	$42.98

Note: Assumes monthly consumption of 13,000 gallons.

Other Charges

Water system facilities charges are levied against all new developments requiring water supplies from the Water System or additional water supplies from existing water services except those where the developer installs, at its own cost, a complete water system including source, transmission and daily storage facilities. Developers pay the water system facilities charges before water services are made available to the developments. Such water system facilities charges are deposited in the Special Expendable Fund and do not constitute Revenues subject to the pledge of the Resolution.

The following table sets forth a breakdown of water system facilities charges levied against all new developments, for the last five Fiscal Years**.**

Table 13
Breakdown of Water System Facilities Charges
Fiscal Years 2007-2011

Fiscal Year	Resource	Transmission	Storage	Total
2007	$4,849,000	$2,361,000	$3,738,000	$10,948,000
2008	4,100,000	1,998,000	2,099,000	8,197,000
2009	2,117,000	1,029,000	1,545,000	4,691,000
2010	3,307,000	1,957,000	1,316,000	6,580,000
2011	3,072,000	1,488,000	978,000	5,538,000

Water system facilities charges are levied for the following:

a. All additional fixture units. Credit is given for the fixture units removed based upon applicable use categories.

b. Additional buildings and/or units to be connected to existing services where additional demands or supplies are indicated. The charges are based upon all additional fixture units required and upon the established schedule of charges for the respective categories.

c. Changes in service categories such as from residential to commercial or industrial activities. Water system facilities charge credits may be given to new applicants for installation of ordered-off meters based on categories for which these meters were formerly used, provided that the water services were ordered-off (terminated) less than five years previously.

d. All services ordered-off for more than five years.

e. All irrigation services.

Water system facilities charges are not levied for the following:

a. Temporary construction meter service for contractors.

b. Services used exclusively for fire protection purposes.

c. Transfer of services.

d. Order-ons (commencement) of services where use categories and water demands remain the same, provided that the water services were ordered-off less than five years previously.

e. Segregation of services. Segregation means the installation of separate meters with no increase in water demand.

The Board may negotiate water system facilities charge agreements other than those above, if the Board determines that the schedule of charges is inappropriate.

A Standby Charge will be negotiated by the Manager and Chief Engineer with private water systems contracting for inter-connection service. Such service shall be provided only for emergency or unscheduled service outages or supply reductions with the intent to protect against interrupted water service supporting normal private system requirements. Water drawn shall be charged at the applicable quantity rate for each thousand gallons or portion thereof.

Consumers may be assessed an On-Site Distribution Tariff for Department maintenance of property piping if they elect to have the Board provide such service. Maintenance shall be limited to repair and renewal of “after the meter” service appurtenances eligible for coverage.

When total electricity costs to the Board exceed the amount used in calculating the annual Schedule of Rates and Charges, a Power Cost Adjustment is added to the Quantity Charge at $0.01 per 1,000 gallons for every $600,000 incremental overage, or any fraction thereof, in the following fiscal year.

When environmental regulations compliance costs to the Board exceed the amount used in calculating the annual Schedule of Rates and Charges, an Environmental Regulations Compliance Fee Cost Adjustment is added to the Quantity Charge at $0.01 per 1,000 gallons for every $600,000 incremental overage, or any fraction thereof, in the following fiscal year.

Outstanding Debt

The Series 2012A Bonds are the seventh series of Bonds issued under and pursuant to the Resolution and will be secured by and entitled to the protection of the Resolution. Upon issuance of the Series 2012A Bonds, and after giving effect to the refunding of the Refunded Bonds, the outstanding Bonds under the Resolution will be: $7,110,000 principal amount of Series 2004 Bonds, $192,860,000 principal amount of Series 2006A and B Bonds, and $85,195,000 principal amount of Series 2012A Bonds.

All previously issued general obligation bonds of the City and County which were reimbursable from revenues of the Water System have been paid or defeased, and all previously issued revenue bonds of the Board, other than the Bonds currently outstanding under the Resolution, have been refunded and defeased. Except for approximately $21,586,000 of currently outstanding state revolving fund loans, incurred as Subordinate Obligations, and approximately $1,831,000 of currently outstanding notes payable to other lenders, no other outstanding debt has been issued for purposes of the Water System. Interest rates are fixed for all of the Board's outstanding debt and the Board has no exposure to any auction rate, derivative or structured investments.

Lease Obligations

The Board has entered into a Space Lease dated as of September 16, 2005 with the University of Hawaii to operate and maintain a seawater cooling system for the provision of chilled water service to the University's John A. Burns School of Medicine and other customers. The term of the lease is 20 years, with the option to extend the lease for two additional periods of five years each. The Board's annual rent obligation under the lease is $158,556.

Employee Benefits

Set forth below is certain information regarding health care benefits, pension benefits and other post-employment benefits for which Department employees are eligible.

Health Care Benefits. All regular employees of the Department are eligible for coverage under health plans provided through the State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "Trust Fund"), which was established in 2003 to design, provide and administer health and other benefit plans for State and county employees, retirees and their dependents. The Trust Fund is administered by a ten-member Board of Trustees (the "Trust Fund Board") appointed by the Governor comprised of five union representatives and five management representatives. The Trust Fund Board is responsible for determining the nature and scope of health plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, ruling on eligibility and establishing management policies for the Trust Fund and overseeing Trust Fund activities. The Trust Fund currently provides medical, prescription drug, dental, vision, chiropractic and group life benefits. Benefits with respect to regular employees are funded by a combination of employer contributions set by collective bargaining agreement or by executive order (with respect to non-union employees) and employee contributions through payroll deductions. Benefits for retirees are funded by a statutory formula.

In recent years, public and private health plan providers nationwide and in Hawaii, including the Trust Fund, have experienced substantial increases in health care costs. In the case of the Trust Fund, the current fiscal situation faced by the State and county employers has made it extremely difficult for the employers to increase employer contributions for health benefits in order to maintain the historical employer-employee contribution ratio. In the past, the Trust Fund Board has attempted to mitigate health plan rate increases by modifying benefits, and employees have been required to bear a larger share of the increased rates. The Board cannot predict what actions will be taken (including changes to future plan benefits or employer-employee contribution rates) to address the impact of rising health care costs on the Trust Fund or what financial effects such changes may have on the Department. As discussed under "THE BOARD AND THE DEPARTMENT – Work Force" above, subject to a "favored nation" contract provision, the collective bargaining agreement with HGEA includes a change in the employer-employee contribution ratio (historically set at 60% for employers and 40% for employees) to a 50/50 ratio. A comparable change has been proposed in pending negotiations for the collective bargaining agreements with the remaining public worker unions.

The information included under the following two captions "Pensions" and "Other Post-Employment Benefits" relies on information produced by the State Retirement System (as defined below) and the Trust Fund, respectively. Actuarial assessments are "forward-looking" and reflect the respective judgments of the fiduciaries of the State Retirement System and the Trust Fund. Such actuarial assessments are based upon a variety of different assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experiences of the State Retirement System and the Trust Fund.

Pensions. All regular employees of the Department are covered under the Employees' Retirement System of the State (the "State Retirement System"), a cost sharing, multiple employer defined benefit pension plan that provides retirement, disability and death benefits funded by employee contributions and by employer contributions determined on an actuarial reserve basis. Employees are covered under a contributory plan, a noncontributory plan or a hybrid contributory plan. Actuarial valuations are prepared annually by the consulting actuary to the State Retirement System's Board of Trustees to determine the employer contribution requirement.

Employer contributions are determined in accordance with Sections 88-122 and 88-123, Hawaii Revised Statutes, as amended. Employer contributions are determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the State Retirement System. Commencing with the 1995 Fiscal Year, the total employer contribution requirement has been calculated to include the normal cost (based on the entry age normal actuarial cost method) plus the level annual payment required to amortize the unfunded accrued liability over a period of 29 years from July 1, 2000. As discussed below, the total unfunded actuarial accrued liability for the State Retirement System as a whole (including the State and the counties) was estimated to be approximately $7.138 billion as of June 30, 2010. In recent years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate (currently established by statute at 8% per annum) applied in actuarial valuations to determine the net employer appropriations to be made to the State Retirement System.

Effective July 1, 2005, Section 88-122, Hawaii Revised Statutes, was amended to establish fixed employer contribution rates as a percentage of compensation. Employer contribution rates were initially set at 15.75% for police officers, firefighters, and corrections officers and 13.75% for other employees. These rates increased on July 1, 2008 to 19.70% for police officers, firefighters, and corrections officers and 15.00% for all others, and will escalate annually from July 1, 2012 through June 30, 2016 from 22.00% to 25.00% for police officers, firefighters, and corrections officers and from 15.50% to 17.00% for all other employees. The contribution rates are subject to adjustment: (1) if the actual period required to amortize the unfunded accrued liability exceeds thirty years; (2) if there is no unfunded accrued liability; or (3) otherwise as determined on the basis of an actuarial investigation conducted in accordance with Section 88-105, Hawaii Revised Statutes. As of June 30, 2010, the actuary of the State Retirement System has calculated the period required to amortize the unfunded accrued liability of the State Retirement System to be 41.3 years.

During the 2011 legislative session (which ended on May 5, 2011), the State Legislature passed legislation, which the Governor subsequently signed into law as Act 163, Session Laws of Hawaii 2011 ("Act 163"), relating to the State Retirement System. Act 163 implements certain changes to the State Retirement System, including increasing contributions under the State Retirement System by employers (as described above) and employees, and altering the way in which certain State Retirement System members who had previously withdrawn from the system can re-enter the system. These changes generally impact employees who enter the State Retirement System after June 30, 2012 and affect members who withdraw and re-enter the system with differing ages and levels of experience.

Each employer's annual contribution to the State Retirement System is determined by multiplying (1) the total employer contribution requirement derived from the annual actuarial valuation as of the next preceding June 30, by (2) the ratio of that employer's payroll over the total covered payroll included in the actuarial valuation. For example, the Department's contribution requirement for the 2010-2011 Fiscal Year was based on the June 30, 2008 actuarial valuation and the payroll used in that valuation. Historically, the Department's contribution has been approximately 0.85% of the total employer appropriation to the State Retirement System. The Department's contribution to the State Retirement System for the last five Fiscal Years was $4,111,000 for 2007, $4,242,000 for 2008, $4,928,000 for 2009, $4,866,000 for 2010, and $4,540,000 for 2011, including amortization of a portion of prior service cost in each such year. Contributions are estimated to be $4,923,000 for 2012.

Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the State Retirement System. All persons hired after June 30, 1984, and those contributory members who elected to join the plan, are covered under the provisions of the noncontributory retirement plan. Police officers, firefighters, elected officers and those employed in positions not covered by social security are excluded from the noncontributory retirement plan. Retirement, disability, and death benefits under the noncontributory plan are less than the contributory plan. The creation of the noncontributory plan has not caused any major change in the Department's funding requirements because the cost of the noncontributory retirement plan is about the same as the contributory retirement plan.

Effective July 1, 2006, a hybrid contributory plan was established for most new employees hired after that date and certain then-current employees who elected to join the hybrid plan. The State Retirement System's actuary has determined that the new hybrid plan is cost neutral.

Pursuant to Sections 88-119 and 88-119.5, Hawaii Revised Statutes, assets of the State Retirement System may be invested in: real estate loans and mortgages; preferred and common stocks; government obligations; corporate obligations; certain other debt obligations (such as obligations secured by collateral of certain other authorized securities listed above, obligations issued or guaranteed by certain development banks, insurance company obligations); real property; alternative investments; and other securities and futures contracts. The investment decision is further dictated by internal investment policies and asset allocations established by the State Retirement System's Board of Trustees.

The total assets of the State Retirement System on a market value basis amounted to approximately $8.8 billion as of June 30, 2009 and $9.8 billion as of June 30, 2010. Actuarial certification of assets as of June 30, 2009 was $11.4 billion. The June 30, 2010 actuarial certification of assets was $11.3 billion, and its unfunded actuarial accrued liability was $7.1 billion. The funded ratio (actuarial assets divided by actuarial accrued liability) for the State Retirement System was 64.6% as of June 30, 2009 and 61.4% as of June 30, 2010. The actuarial value of assets is based on a four-year smoothed valuation that recognizes the excess or shortfall of investment income over or under the 8% actuarial investment assumption. The actuary for the State Retirement System does not provide a breakdown of the unfunded liability for the various employers participating in the system. The State Retirement System 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.

The following table obtained from the State shows the total actuarially determined employer contribution rate for all employees based on the last five annual actuarial valuations.

Table 14
Actuarially Determined Employer Contribution Rates

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)*	Funding Period (Years)
2006	13.95	35.2
2007	13.95	25.5
2008	15.46	22.6
2009	15.47	28.2
2010	15.49	41.3

* *Reflects Act 181, SLH 2004, which amended HRS Sections 88-105, 88-122, 88-123, 88-124, 88-125 & 88-126.*

In 2005, the funding period increased due to recognition of large actuarial losses. In 2006, the funding period increased due to a large increase in the liabilities associated with the adoption of new actuarial assumptions. The funding period decreases in 2007 and 2008 reflect an increase in employer contribution rates that became effective July 1, 2008, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increases in 2009 and 2010 were due to the net asset loss from the significant decline in the financial markets primarily during the 2009 Fiscal Year. As discussed above, under Section 88-122, Hawaii Revised Statutes, employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. Therefore, it is possible that the State Retirement System Board will implement increases in employer contributions rates in the foreseeable future.

A summary of the actuarial certification of the State Retirement System as of June 30, 2008, 2009 and 2010 is set forth below:

Table 15
Summary of Actuarial Certification as of June 30, 2008, 2009 and 2010
(Includes all counties)

ASSETS	2008	2009	2010
Total current assets	$11,380,961,003	$11,400,116,874	$11,345,618,006
Present value of future employee contributions	1,321,322,095	1,454,290,782	1,435,479,895
Present value of future employer normal cost contributions	1,567,124,012	1,658,595,716	1,601,394,963
Unfunded actuarial accrued liability	5,168,108,050	6,236,315,442	7,138,050,585
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A	N/A
TOTAL ASSETS	$19,437,515,160	$20,749,318,814	$21,520,543,449
LIABILITIES			
Present value of benefits to current pensioners and beneficiaries	$ 8,230,338,790	$ 8,584,029,950	$ 9,259,425,898
Present value of future benefits to active employees and inactive members	11,207,176,371	12,165,288,864	12,261,117,551
TOTAL LIABILITIES	$19,437,515,161	$20,749,318,814	$21,520,543,449

Source: Gabriel, Roeder, Smith & Company.

Other Post-Employment Benefits. In addition to pension benefits, beginning with the Fiscal Year ending June 30, 2008, state and local governments are required to account for and report other post-employment benefits

("OPEBs") under Statement No. 45 ("GASB 45") issued by the Governmental Accounting Standards Board. OPEBs consist of certain health and life insurance benefits provided through the Trust Fund to retired State and county employees and their dependents, including retired Department employees and their dependents. Employer contributions to the Trust Fund for these benefits are determined by the Trust Fund based on employees' hiring dates and years of service.

In December 2010, the State's independent actuarial consultant estimated the actuarial accrued liabilities and annual OPEB costs under GASB 45 for the State and the counties for the Fiscal Year ending June 30, 2010. These estimates were based on the actuarial valuation as of July 1, 2009 and were developed assuming full prefunding of obligations. The actuarial accrued liability for Trust Fund OPEBs for the Department was estimated to be approximately $143,333,000 as of the most recent actuarial valuation date of July 1, 2009. The corresponding annual required contribution was estimated to be approximately $7,837,000 for the Fiscal Year ending June 30, 2010 and $10,387,000 for the Fiscal Year ending June 30, 2011 with full prefunding. The Department's actual contribution for Trust Fund OPEBs was $8,773,000 in Fiscal Year 2010 and $12,339,000 in Fiscal Year 2011.

Through December 2011, the Department had transferred $18.5 million to the Trust Fund to prefund its OPEB obligations, and intends to transfer another $4 million to the Trust Fund by June 30, 2012, to prefund its estimated OPEB obligations in full.

Historical and Projected Revenues, Expenses and Debt Service Coverage

The following table presents the Board's revenues, expenses and debt service coverage ratios for the Fiscal Years ended June 30, 2007 through 2011. The information presented in the table is based on the Board's audited financial statements for such years.

Attached as Appendix B hereto are the Board's audited financial statements for the Fiscal Years ended June 30, 2011 and 2010. Reference is made to such Appendix for further information regarding the Board's financial condition as of June 30, 2011 and 2010 and its results of operations for the Fiscal Years then ended.

Table 16
Historical Revenues, Expenses and Debt Service Coverage
Fiscal Years 2007-2011

	2007	2008	2009	2010	2011
Operating revenues:					
Water sales	$113,630,379	$128,123,969	$135,243,214	$148,444,285	$146,287,716
Other operating revenues	3,623,936	3,953,427	4,317,643	5,654,491	4,308,910
Total operating revenues:	$117,254,315	$132,077,396	$139,560,857	$154,098,776	$150,596,626
Operating expenses (excluding depreciation):					
Administrative and general	$ 32,226,575	$ 38,922,486	$ 39,419,836	$ 40,363,049	$ 42,137,019
Maintenance	8,629,303	14,428,599	15,750,430	13,266,809	13,832,056
Power and pumping	23,115,493	29,291,507	29,383,411	27,967,429	28,631,436
CASE fees	1,874,329	2,000,000	2,500,000	3,000,000	3,300,000
Transmission and distribution	12,806,668	14,053,377	14,195,506	13,445,945	13,691,498
Customers' accounting and collection	3,403,356	3,400,861	3,131,356	3,052,034	2,877,189
Water reclamation	4,732,973	5,426,025	4,497,978	4,685,011	4,794,146
Water treatment	181,462	--	21,094	43,013	--
Source of supply	68,245	62,673	48,171	44,541	37,368
Total operating expenses:	$ 87,038,404	$107,585,528	$108,947,782	$105,867,831	$109,300,712
Operating income:	$ 30,215,911	$ 24,491,868	$ 30,613,075	$ 48,230,945	$ 41,295,914
Nonoperating revenues:					
Interest income	$ 8,478,871	$ 8,370,285	$ 5,677,856	$ 3,107,953	$ 3,929,911
Total nonoperating revenues:	$ 8,478,871	$ 8,370,285	$ 5,677,856	$ 3,107,953	$ 3,929,911
Net revenues:	$ 38,694,782	$ 32,862,153	$ 36,290,931	$ 51,338,898	$ 45,225,825
Annual debt service:	$ 20,879,950	$ 20,899,694	$ 20,913,800	$ 20,919,399	$ 20,923,074
Debt Service Coverage:	1.85	1.57	1.74	2.45	2.16

The following table sets forth the Board's projected revenues, expenses and debt service coverage ratios for the Fiscal Years ended June 30, 2012 through 2016.

Table 17
Projected Revenues, Expenses and Debt Service Coverage
Fiscal Years 2012-2016
(Dollars in Thousands)

	2012	2013	2014	2015	2016
Operating revenues:					
Water sales *	$155,936	$175,974	$192,956	$211,576	$231,993
Other operating revenues	4,737	4,845	5,554	6,332	7,187
Total operating revenues:	$160,673	$180,819	$198,510	$217,908	$239,180
Operating expenses (excluding depreciation):					
Administrative and general	$ 44,470	$ 45,537	$ 46,564	$ 47,342	$ 49,247
Maintenance	14,053	15,093	15,455	15,826	16,206
Power and pumping	42,340	44,470	46,706	47,827	48,975
CASE fees	3,300	3,300	3,300	3,300	3,300
Transmission and distribution	15,848	16,646	17,483	17,902	18,332
Customer accounting & collection **	3,253	6,063	6,209	6,358	6,511
Water reclamation	5,534	5,667	5,803	5,942	6,084
Water treatment	46	47	48	49	53
Source of supply	43	44	45	46	47
Total operating expenses:	$128,887	$136,867	$141,613	$144,592	$148,755
Operating income:	$ 31,786	$ 43,952	$ 56,897	$ 73,316	$ 90,425
Non-operating revenues:					
Interest income	$ 2,634	$ 2,634	$ 2,647	$ 2,660	$ 2,673
Total non-operating revenues:	$ 2,634	$ 2,634	$ 2,647	$ 2,660	$ 2,673
Net revenues:	$ 34,420	$ 46,586	$ 59,544	$ 75,976	$ 93,098
Annual debt service:	$ 20,933	$ 20,945	$ 20,955	$ 20,973	$ 20,979
Debt Service Coverage:	1.64	2.22	2.84	3.62	4.44

* *The Board has approved a schedule of rate increases of 9.65% annually for Fiscal Years 2012-2016. The initial 9.65% rate increase took effect on January 1, 2012 and subsequent 9.65% increases are scheduled to take effect on July 1 of the Fiscal Years 2013 through 2016. See also "FINANCIAL INFORMATION—Rates and Charges" regarding the possible deferral of the rate increase scheduled for July 1, 2012.*

** *The Board expects to begin billing residential customers on a monthly basis in Fiscal Year 2013. Consequently, water sales revenue and customer accounting and collection costs are projected to increase at that time.*

Management's Discussion of Financial Performance

This section presents management's discussion and analysis of the Board's financial condition and activities for the Fiscal Year ended June 30, 2011. This information should be read in conjunction with the financial statements.

The increase in net assets for the Fiscal Year ended June 30, 2011 was $12.4 million, compared to an increase of $17.4 million for Fiscal Year ended June 30, 2010. Operating revenues for Fiscal Year 2011 were $150.6 million, a decrease of $3.5 million from Fiscal Year 2010 revenues of $154.1 million. Total operating expenses (excluding depreciation) increased to $109.3 million in Fiscal Year 2011, an increase of $3.4 million from Fiscal Year 2010. Factors contributing to this change are explained below.

Administrative and general expenses increased $1.8 million mainly due to an increase in other post-employment benefits paid offset by a decrease in expenditures for information technology contractual services. Power and pumping expenses increased $0.7 million from Fiscal Year 2010. This was primarily due to an increase in electricity costs of $2.4 million offset by a decrease in the purchase of granular activated carbon in the amount of $1.4 million. In the other operating expense categories, expenses increased $0.7 million. This was comprised of a decrease in transmission maintenance offset by an increase in pumping station maintenance. Non-operating expenses increased by $5.1 million due primarily to an increase in the loss from disposition of property.

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 Department'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 Board realized contributions in aid of construction of $24.8 million in Fiscal Year 2011 compared to $18.1 million in Fiscal Year 2010. The increase in contributions in aid of $6.7 million was due to an increase in projects completed by governmental funds of $11.3 million. In Fiscal Year 2011, the major developments completed were Fort Weaver Road widening and East Kapolei reservoir, access road and transmission mains.

The Board's unrestricted current assets at June 30, 2011 were 5.1 times its related current liabilities compared to 4.5 times at June 30, 2010. The ratio increase was due to an increase in cash and investments. Net assets increased by $12.4 million, or 1.2%, from $997.1 million in Fiscal Year 2010 to $1.0 billion at the end of Fiscal Year 2011. This reflects consistent operating revenue and increases in contributions in aid offset by increases in other non-operating expenses.

Recent Legislative Proposals

On January 20, 2012, Senate Bill 2471 was introduced in the State Legislature seeking to require the State Department of Health to establish a maximum contaminant level for hexavalent chromium at 0.06 parts per billion for the State's drinking water. The Board submitted written testimony to the Legislature in opposition to the bill citing pilot tests of various water treatment technologies in California which have not yet been able to consistently and reliably remove hexavalent chromium levels below five parts per billion, and noting that the U.S. Environmental Protection Agency (EPA) and California Department of Health Services are currently determining whether there is a need for a national and state drinking water standard for hexavalent chromium. The Board estimated the cost to treat its drinking water with reverse osmosis or distillation (technologies theoretically capable of removing the compound to the required levels) would exceed $1 billion and take more than 10 years to implement. A House companion bill (HB 2117) was deferred indefinitely by the House Committee on Energy and Environmental Protection on January 31, 2012.

The EPA began a rigorous and comprehensive review of the health effects of hexavalent chromium following the release of toxicity studies by the National Toxicology Program in 2008. In September 2010, the EPA released a draft of the scientific assessment (Toxicological Review of Hexavalent Chromium) for public comment and external peer review. Following the conclusion of the public review and comment period, public listening session, and external peer review, the draft Toxicological Review will be revised and submitted for a final agency review and an EPA-led interagency science discussion. Once the EPA's risk assessment is finalized, the agency has committed to work quickly to determine if new standards need to be set, to offer technical expertise and assistance to communities cited in the recent environmental working group study with the highest levels of chromium, and to work with water system operators and engineers to ensure the latest testing and monitoring methods are being utilized.

On January 24, 2012, Resolution 12-25 was introduced in the City Council seeking to amend the City Charter to repeal Article VII (which establishes the Board as a semi-autonomous agency of the City and County) and to transfer the powers, duties and functions of the Board to a Department of Water Supply under the executive branch of the City and County, and the power to fix and adjust rates to the City Council. The Resolution, if adopted in its current form by the City Council, would require the proposed transfer of the Board's powers, duties and functions to be placed on the ballot for the 2012 general election. If approved by a majority of voters, the transfer would become effective on July 1, 2013.

On February 7, 2012, Bill 9(2012) was introduced in the City Council. If adopted in its current form, the bill would require City Council approval of all agreements (and any amendments thereto) between the City and County and either the Honolulu Authority for Rapid Transportation or the Board.

The Board cannot predict whether or in what form these or any other legislative proposals affecting the Board or its revenues and/or expenses may be enacted into law in the future, or whether any such legislation would have a material adverse impact on the Department's financial condition.

INVESTMENTS

Cash collected by the Board is deposited in separate accounts maintained by the Department of Budget and Fiscal Services of the City and County. Hawaii Revised Statutes provide for the City and County's Director of Budget and Fiscal Services to deposit the cash with any national or state bank or federally-insured savings and loan association authorized to do business in the State of Hawaii, provided that all deposits are fully insured or collateralized.

Statutes authorize the Board to invest, with certain restrictions, in bonds or interest-bearing notes or obligations of the county, State of Hawaii, United States, or of agencies of the United States for which the full faith and credit of the United States are pledged for the payment of principal and interest; federal land bank bonds; joint stock farm loan bonds; Federal Home Loan Bank notes and bonds; Federal Home Loan Mortgage Corporation bonds; Federal National Mortgage Association notes and bonds; securities of a mutual fund whose portfolio is limited to bonds or securities issued or guaranteed by the United States or an agency thereof, repurchase agreements fully collateralized by any such bonds or securities; bank savings accounts; time certificates of deposit; certificates of deposit open account; bonds of any improvement district of any county of the State; bank, savings and loan association, and financial services loan company repurchase agreements; and student loan resource securities.

The Board, through an Investment Committee (comprised of the Chief Financial Officer, the Treasurer, and up to three individuals from the Board's Enterprise Leadership Team, as designated by the Manager), manages the Board's investment policies and does not engage in pooled investments, speculative investments or leveraged investments. The Board has formulated a written investment policy to manage its investments which emphasizes: first, Safety, to preserve public funds; second, Liquidity, so that funds are available when needed; and third, Yield, but only after the first two considerations are met. Board funds may only be deposited in federal banks or Hawaii financial institutions. Investment managers of Board funds must comply with investment restrictions in the Resolution and the restrictions imposed by federal law and regulations resulting from the issuance of tax-exempt bonds. Effective May 1, 2009, the Board entered into an investment consultant agreement with Merrill Lynch to hold Board investments. Such investments are monitored by the Investment Committee and managed by two independent investment managers as of January 31, 2012. The aggregate fair value of such investments as of June 30, 2011, was $165,428,555.

PENDING LITIGATION

In the normal course of business, claims and lawsuits are filed against the City and County and the Board and their respective officers and employees. The Board is insured for $15,000,000 (aggregate) which is in excess of a $500,000 self retention limit. Claims against the City and County which are related to the Water System are chargeable against the Board. In the Fiscal Year ended June 30, 2011, the Board paid judgment claims in the amount of $701,565. The City and County's Corporation Counsel is of the opinion that no pending litigation will be determined so as to result individually or in the aggregate in a final judgment against the Board or against the City and County and chargeable against the Board which would constitute a material impairment of the Board's financial position.

The City and County's Corporation Counsel reports that there is no controversy or litigation now pending or, to the best of the Board's knowledge, threatened, which seeks to restrain or enjoin the execution, issuance, sale or delivery of the Series 2012A Bonds or that in any way contests the validity of the Series 2012A Bonds; or any proceedings of the Board taken with respect to the authorization, sale, or issuance of the Series 2012A Bonds, the pledge or application of any moneys provided for the payment of or security for the Series 2012A Bonds.

FINANCIAL STATEMENTS

The City Charter provides that the accounts and financial status of the Board shall be examined annually by a certified public accountant whose services shall be contracted for by the Board. The Board's current independent auditor, having completed its sixth year as auditor for the Board, is N&K CPAs, Inc. The financial statements of the Board as of and for the Fiscal Years ended June 30, 2011 and 2010 included in Appendix B to this Official Statement, have been audited by N&K CPAs, Inc., as stated in their report therein. N&K CPAs, Inc. has not performed any procedures relating to information included in this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

In connection with the issuance of the Series 2012A Bonds and the refunding of the Refunded Bonds, Causey Demgen & Moore, Inc., independent certified public accountants, will verify the mathematical accuracy of: (a) certain computations demonstrating the sufficiency of the Escrow Fund, including the moneys deposited therein and the anticipated receipts from the Escrow Fund Investments, to pay the principal or redemption price of and interest on all Refunded Bonds, when due; and (b) certain computations of the yield on the Series 2012A Bonds and the Escrow Fund to be relied upon by Bond Counsel for purposes of its opinion to the effect that the interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes. Such verification will be based in part on schedules and information provided by the Underwriter with respect to the foregoing computations.

RATINGS

Fitch Ratings ("Fitch") and Moody's Investors Service ("Moody's") have assigned ratings of "AA+" and "Aa2," respectively, to the Series 2012A Bonds. The rating agencies may have obtained and considered information and material which has not been included in this Official Statement. Generally, the rating agencies base their rating on information and material furnished and on investigations, studies and assumptions made by them.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same, at the following addresses: Fitch, One State Street Plaza, New York, New York 10004; and Moody's, 99 Church Street, New York, New York 10007. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an effect on the market price of the Series 2012A Bonds.

UNDERWRITING

The Series 2012A Bonds are being purchased for reoffering by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Underwriter. The Underwriter has agreed to purchase the Series 2012A Bonds at an aggregate purchase price of $97,822,824.59 (equal to $85,195,000.00 principal amount of Series 2012A Bonds, plus a net original issue premium of $13,314,168.50, less the underwriters' discount of $686,343.91). The bond purchase contract with respect to the Series 2012A Bonds provides that the Underwriter will purchase all the Series 2012A Bonds if any are purchased. The initial public offering prices are set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell the Series 2012A Bonds to certain dealers (including depositing the Series 2012A Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The public offering prices may be changed from time to time by the Underwriter.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), bond counsel to the Board, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), and the Series 2012A Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes.

Bond Counsel is of the further opinion that interest on the Series 2012A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2012A Bonds is less than the amount to be paid at maturity of such Series 2012A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2012A Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2012A Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Series 2012A Bonds is the first price at which a substantial amount of such maturity of the Series 2012A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2012A Bonds accrues daily over the term to maturity of such Series 2012A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2012A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2012A Bonds. Beneficial owners of the Series 2012A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2012A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2012A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2012A Bonds is sold to the public.

Series 2012A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2012A Bonds. The Board has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2012A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2012A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2012A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2012A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2012A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes and that the Series 2012A Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2012A Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2012A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series 2012A Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2012A Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2012A Bonds. Prospective purchasers of the Series 2012A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2012A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Board, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Board covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2012A Bonds ends with the issuance of the Series 2012A Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the Board or the Beneficial Owners regarding the tax-exempt status of the Series 2012A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Board and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Board legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2012A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2012A Bonds, and may cause the Board or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Series 2012A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Board. A complete copy of the proposed form of the Bond Counsel opinion is contained in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Board will undertake in a Continuing Disclosure Certificate, the form of which is set forth in Appendix C (the "Continuing Disclosure Certificate"), to provide to the Municipal Securities Rulemaking Board on an annual basis certain financial and operating data concerning the Department, financial statements, notice of certain events and certain other notices, all as described in the Continuing Disclosure Certificate. The undertaking is an obligation of the Board that is enforceable as described in the Continuing Disclosure Certificate. Beneficial Owners of the Bonds are third party beneficiaries of the Continuing Disclosure Certificate. The execution of the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriter to purchase the Series 2012A Bonds. During the last five years, the Board has not failed to materially comply with any previous undertaking relating to continuing disclosure of information pursuant to Rule 15c2-12.

MISCELLANEOUS

Additional information may be obtained, upon request, from the Manager and Chief Engineer of the Board.

All quotations from, and summaries and explanations of, the State Constitution and laws referred to herein do not purport to be complete, and reference is made to the State Constitution and laws for full and complete statements of their provisions. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of any of the Series 2012A Bonds.

BOARD OF WATER SUPPLY OF THE CITY AND COUNTY OF HONOLULU

/s/ Ernest Y.W. Lau

Ernest Y.W. Lau, Manager and Chief Engineer

APPENDIX A

Economic and Demographic Factors

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ECONOMIC AND DEMOGRAPHIC FACTORS

Introduction

The City and County of Honolulu, which includes the entire island of Oahu and a number of small outlying islands, is a major metropolitan city with a population of 953,207 (approximately 70% of the State's population) according to the 2010 U.S. Census. Honolulu's underlying economy is strong, supported by several diversified areas, which include tourism, the federal government and military operations, State and local governments, manufacturing, construction, real estate, education, research and science, trade and services, communications, finance and transportation. Honolulu also is viewed as a premier world-class destination, and has received several accolades from the visitor industry.

Oahu is situated between 21 degrees and 22 degrees north latitude, just below the Tropic of Cancer. The climate has an average mean winter temperature of 70.2 degrees and an average mean summer temperature of 78.6 degrees. Oahu has neither the cold of the temperate zones nor the heat and humidity of the tropics. Two modest mountain ranges, the Koolau and the Waianae, intercept the dominant northeast tradewinds. Average rainfall varies widely from one area of Oahu to another. Rainfall is comparatively light in the leeward coastal area where the larger part of the population is located. Waikiki, located on the leeward side of Oahu, has a dry climate with annual precipitation averaging about 27 inches; precipitation in the upper reaches of the Koolau mountains averages about 400 inches a year and provides an adequate supply of water for irrigation use and retention in large subterranean reservoirs for household and industrial uses.

Certain Economic Indicators

Employment. The following table sets forth certain employment statistics for the City and County for the five years ending December 31, 2007 through 2011. As indicated below, the unemployment rate for the City and County increased from 3.6% in 2008 to 5.8% in 2009 before declining to 5.6% in 2010 and to 5.3% in 2011. This compares favorably to the unemployment rates for the State (4.0% in 2008, 6.8% in 2009, 6.6% in 2010, and 6.3% in 2011) and the nation as a whole (8.2% in 2008, 10.0% in 2009, 9.6% in 2010, and 8.9% in 2011).

Table I

EMPLOYMENT STATISTICS*

	Year Ended December 31				
	2007	**2008**	**2009**	**2010**	**2011**
Civilian Labor Force	440,050	444,050	440,050	439,000	444,650
Annual Average Civilian Employment	429,000	428,000	414,700	414,500	420,800
Unemployment	11,050	16,050	25,350	24,500	23,800
Unemployment Rate	2.5%	3.6%	5.8%	5.6%	5.3%
Total Job Count	456,950	454,300	442,650	436,150	443,850

* *Data benchmarked by the State of Hawaii Department of Labor & Industrial Relations in March 2011.*

Source: State of Hawaii Department of Labor & Industrial Relations and Department of Business, Economic Development & Tourism.

Personal Income. In recent years, per capita personal income for Honolulu residents has consistently been higher than for the State of Hawaii and the United States as a whole. The following table sets forth the per capita personal income for Honolulu residents in comparison to the State and the country for the years 2005 through 2009 (the most recent year for which county income data is available from the U.S. Department of Commerce, Bureau of Economic Analysis).

Table II

PER CAPITA PERSONAL INCOME

Year	Honolulu	State of Hawaii	United States
2005	38,057	35,804	35,424
2006	40,976	38,510	37,698
2007	43,874	41,161	39,461
2008	45,625	42,486	40,674
2009	45,496	42,152	39,635

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Housing Market. Median home resale prices (single family homes and condominiums) in Honolulu increased annually from 2001 through 2007 before declining in the course of the global economic downturn. More recently, median resale prices in the Honolulu housing market have shown signs of returning to stability. The following table presents median resale prices for single family homes and condominiums in Honolulu between 2001 and 2011.

Table III

MEDIAN HOME RESALE PRICES

	Single Family Homes		Condominiums	
Year	Median Resale Price	% Change	Median Resale Price	% Change
2001	$299,900	1.7	$133,000	6.4
2002	335,000	11.7	152,000	14.3
2003	380,000	13.4	175,000	15.1
2004	460,000	21.1	208,500	19.1
2005	590,000	28.3	269,000	29.0
2006	630,000	6.8	310,000	15.2
2007	643,500	2.1	325,000	4.8
2008	620,500	-3.6	325,000	0.0
2009	575,000	-7.3	305,000	-6.2
2010	593,000	3.1	305,000	0.0
2011	575,000	-3.0	300,000	-1.6

Source: State of Hawaii Department of Business, Economic Development and Tourism.

State and County Governments

With Honolulu as the State capital, most State government activity is concentrated on the Island of Oahu. As of the fourth quarter of 2011, the State government generated 73,700 jobs, of which approximately 76% were located on Oahu. The largest number of State employees work in public education and the State university system, with approximately 80% of these employed on Oahu. In addition, the City and County government generated approximately 12,050 jobs as of December 31, 2011.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy as the second largest industry behind tourism. It is estimated that between FY 2007-2009, the Department of Defense's (DoD) direct expenditures in Hawaii averaged $6.5 billion per year (in 2009 dollars), with approximately $4.1 billion for personnel and $2.3 billion for procurement. Importantly, such expenditures generated an output of $12.2 billion for Hawaii's economy in 2009, representing over 18% of total spending in the State.

The majority of defense procurement in Hawaii is purchased by the Navy and Army, accounting for nearly 73% of the total spending (approximately $1.7 billion). Defense procurement was relatively constant from 1982 to 1995, but grew steadily thereafter. Hawaii-based procurement varies across the counties, ranging from $10 million and $27 million in Maui and Hawaii counties, respectively, to $106 million in Kauai and $2.2 billion in Honolulu. Honolulu accounts for 94% of the total defense procurement spending within the State. The majority of procurement spending was in four areas: construction ($787 million); professional, scientific and technical ($457 million); administrative and support services ($192 million); and petroleum- and coal-products manufacturing ($176 million).

In 2009, 10% of the State's total employment comprised of active-duty and DoD civilian personnel. More than 75,000 people served in the military or were employed by DoD, comprised of 48,000 active-duty service members, 18,000 DoD civilian employees, and 9,000 National Guard and Reserve members. The median earnings for active-duty service members and DoD civilians are higher than that of other full-time employees in Hawaii. In 2007-2009, the median salary for active-duty personnel were $74,900, while DoD civilian workers were $69,800 (in 2009 dollars). It is estimated that over this time period, state income taxes attributed to these employees have generated more than $113 million of tax revenues for Hawaii.

A major contributing factor to military constructions over the past five years have been the Public/Private Venture military housing partnership between the Army and Air Force with Actus Lend Lease and the Department of the Navy (Navy and Marine housing) partnership with Forest City. Demand for new military housing is expected to continue to support economic growth in Hawaii. Most of the construction efforts will focus on the Army's housing projects ranging from Fort Shafter to Helemano Military Reservation and Schofield Barracks. $1.2 billion worth of military construction projects by Actus Lend Lease are expected to generate about 7,200 construction jobs.

Ongoing programs to privatize construction, renovation and operation of military housing is expected to contribute an estimated $3 billion over the next decade. The U.S. military has announced plans and begun the process of privatizing the military housing stock on Oahu. The plans, at various stages by each branch of service, call for nearly $2 billion in bonds coupled with approximately $8 million from developers to be spent over the next ten years for the renovation, demolition and new construction of over 16,000 homes, as well as community centers and landscaping improvements. The largest privatized military housing transaction to date (approximately $1.49 billion) sold in April 2005 providing funds for costs associated with the design, demolition, construction and renovation of 8,132 housing units in six military multi-family rental housing communities on Oahu. At the end of the development period (scheduled for 2015), a total of 7,894 new family housing units are expected to be in place as well as construction of eleven community centers that will offer swimming pools, water parks and tot lots. The scope of work is expected to take ten years to complete with construction spread over three phases.

It was announced in July 2010, that Hawaii will receive more than $740 million in funding for an array of military construction and veterans affairs projects, including infrastructure projects at the Pacific Missile Range Facility, a new building for the Welding School Shop at Pearl Harbor and a new federal fire station at West Loch.

The U.S. Navy has made major infrastructure improvements to make Ford Island the center of Pearl Harbor Naval Base operations. The work included installation of new electrical and telecommunication systems, major improvements to the sewer system and roadways, and renovation of a 21,000 square foot movie theater into a state-of-the-art conference and meeting center. This project is part of a master development project that will eventually add 430 new navy housing units to the island.

Future levels of federal funding (including defense funding) in Hawaii are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit.

Finance

As the financial center of the State of Hawaii, Honolulu is served by a full range of financial institutions, including banks, savings and loan associations and financial services companies. Branch banking is permitted in Hawaii.

Honolulu currently has five state-chartered banks, one state-chartered financial services company, two federally-chartered savings associations and one national bank with combined assets totaling $39.9 billion as of June 30, 2011, according to information from the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. The state-chartered banks (Bank of Hawaii, Central Pacific Bank, First Hawaiian Bank, Ohana Pacific Bank and Pacific Rim Bank) have a combined total of 179 branches and total assets of $32.4 billion as of June 30, 2011. The state-chartered financial services company (Finance Factors, Ltd.) has 15 branches and total assets of $537 million as of June 30, 2011. The two federally-chartered savings associations (American Savings Bank and Territorial Savings Bank) have 84 branches and $6.4 billion of total assets as of June 30, 2011, and the national bank (Hawaii National Bank) has 14 branches and $578 million of total assets as of June 30, 2011.

Transportation

All parts of the City and County are connected by a comprehensive network of roads, highways, and freeways, and all of the populated areas of the island are served by a bus transit system (TheBus). Ridership has grown from 30 million passengers per year to approximately 71 million today. TheBus is now the 20^{th} most utilized transit system in the country and the 13^{th} most utilized bus fleet. Additionally, on a per-capita basis, the City and County has the sixth highest transit ridership in the country.

The City and County is proceeding with plans for a new $5.3 billion, 20-mile fixed guideway mass transit system to provide rail service along the island's east-west corridor between Kapolei and downtown Honolulu (Ala Moana Center). Over 60% of the City and County's population currently lives within the area served by this corridor, and this area is projected to continue to grow faster than the rest of Oahu. Costs related to the construction of the transit system are expected to be funded with proceeds from the 0.5% excise tax surcharge implemented by the City and County in January 2007, proceeds of future general obligation bond issues, and money received from the U.S. Department of Transportation, Federal Transit Administration.

Honolulu is the hub of air and sea transportation for the entire Pacific. Honolulu International Airport (HNL) is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, of which two, at 12,001 feet and 12,357 feet, respectively, are among the nation's longest.

According to the Federal Aviation Administration, HNL was the twelfth largest U.S. gateway airport in 2008 based on the number of international enplaned passengers and twenty-fifth busiest in the United States in total passengers (enplaned and deplaned). The 2008 Airports Council International Worldwide Traffic Report listed HNL the seventy-first busiest air terminal in the world.

Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. In fiscal year 2009, HNL recorded 276,272 aircraft operations as compared to 304,839 for fiscal year 2008. In addition, HNL passenger counts for fiscal year 2009 decreased from 20,808,838 in fiscal year 2008 to 17,806,225.

The Airports Division is in the process of implementing a modernization program which will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona and Lihue. The program is currently estimated to cost in excess of $1.3 billion through 2016, $893 million of which is allocable to HNL, and will be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 10.1 million short tons in fiscal year 2008, 9.0 million short tons in fiscal year 2009 and 8.8 million short tons in fiscal year 2010. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. The Act authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the Plan is estimated at $618 million, of which $318 million is allocable to Honolulu Harbor.

Construction

The value of new building permits issued by the City and County in 2008 decreased 11.6% from 2007, the first year-over-year decline in total permit value since 2001. The decline continued in 2009, before improving in 2010 with an 8.8% increase over the prior year. Total permit value declined again in 2011 with a 6.2% decrease from 2010.

Table IV shows the estimated value of construction authorizations for private buildings for the City and County and for the State as a whole for the last ten years.

Table IV
ESTIMATED VALUE OF BUILDING PERMITS
(Dollars in Thousands)

Year	State [(1), (2)]	% Change from Prior Year	City & County of Honolulu [(1)]	% Change from Prior Year
2002	$1,772,027	11.7	$ 876,049	28.3
2003	2,361,233	33.3	1,109,568	26.7
2004	2,726,536	15.5	1,320,552	19.0
2005	3,491,964	28.1	1,364,030	3.3
2006	3,770,051	8.0	1,625,328	19.2
2007	3,585,447	-4.9	1,676,232	3.1
2008	2,906,578	-18.9	1,481,272	-11.6
2009	1,998,908	-31.2	1,247,196	-15.8
2010	1,980,296	-0.9	1,357,314	8.8
2011	1,858,878	-6.1	1,272,923	-6.2

(1) *In thousands of dollars.*

(2) *Kauai County data consists of residential data only.*

Source: State of Hawaii Department of Business, Economic Development and Tourism (compiled from data collected by county building departments).

In 2009, the Hawaii Community Development Authority retained MVE Pacific and its team of development and planning specialists to lead the master planning process for Kakaako Makai, the waterfront area of the 600-acre Kakaako District near downtown Honolulu. In April 2011, the consulting team released the Kakaako Makai Conceptual Master Plan Final Report calling for the development of the area as a community gathering place that includes various historical, cultural, educational, research, entertainment and commercial facilities and activities. The cost of this development is estimated in the $250-300 million range.

In 2009, the unfinished Pacifica Honolulu Condominium Tower was acquired by a San Diego developer. The developer completed construction of the 46-story, 489-unit condominium in the fall of 2011.

See "Transportation" above for a description of the State of Hawaii's multi-year improvement programs for the airports and harbors systems and the City and County's proposed fixed guideway mass transit system. See also "Visitor Industry" below for a description of certain other construction projects related to the visitor industry.

Trade and Services

The economy of both the City and County and the State as a whole is heavily trade and service oriented, largely because of the heavy volume of purchases by visitors to the State. According to the State's Department of Taxation, the State's general excise tax base for trade and service activities exceeded $41.2 billion in 2010, with retail, wholesale and service activities accounting for the majority. Of the State's 586,900 non-agricultural jobs in 2010, retail and wholesale trade together accounted for 83,100 jobs, or 14.2% of the total, and professional and business services, educational services, food services and other services together accounted for 167,800 jobs, or 28.6% of the total.

Agriculture and Diversified Manufacturing

Oahu accounts for approximately 30% of the State's agricultural production. Agricultural sales totaled over $184 million for Oahu in 2009.

Approximately one-fifth of the land on Oahu is zoned for agriculture. With the decline of the sugar and pineapple industries, agricultural lands are returning to an era of small farms growing diversified agricultural products. There are over 600 crop farms on Oahu, with flowers, vegetables and fruits comprising over 95% of the production. Aquaculture (including production of cultivated species of shellfish, finfish and algae) has grown in recent years as well.

Manufacturing is a relatively small sector in the State's and the City and County's economy. This sector consists principally of manufacturing cement (one plant), refining oil (two refineries), and converting oil into synthetic natural gas (one plant). Other activities include the manufacturing of garments, plastic and concrete pipe, jewelry and gift items, and the processing and packaging of tropical fruits, nuts and other food items.

Renewable Energy

Renewable energy is a growing industry on Oahu.

The City and County's H-Power waste-to-energy facility has been in operation since 1990. Since its opening, the facility has turned over 12 million tons of municipal solid waste into electricity sold to the local electric utility. A $325.7 million expansion is currently under construction (with completion anticipated in mid-2012), and is expected to provide capacity to handle an additional 300,000 tons of waste per year.

Honua Power plans to construct a gasification plant expected to produce 12 megawatts of electricity from synthetic gas made from waste. Construction is expected to begin in 2014.

In March 2011, Kahuku Wind Power LLC completed Oahu's first large-scale commercial wind farm on the North Shore of the island. This 30-megawatt wind farm is expected to generate 83 million kilowatt hours of electricity annually.

Other renewable energy projects on Oahu include a 20-megawatt photovoltaic solar farm in Mililani and two 5-megawatt solar farms in Kalaeloa. In addition, Honolulu Seawater Air Conditioning has State legislative approval for a $150 million special purpose revenue bond issue (conduit bond issue) to fund the costs of a district cooling project for downtown Honolulu.

Education, Research and Science

The University of Hawaii is Hawaii's sole state public university system and is governed by a single Board of Regents. It is comprised of ten campuses, including three University campuses, seven community college campuses, three University Centers, multiple learning centers, and extension, research, and service programs distributed across six islands throughout the State. In addition to the flagship campus of the University at Manoa, the University System also includes the 4,139-student (as of fall 2011) campus at Hilo on the island of Hawaii and the smaller campus in West Oahu on the island of Oahu. The community college system in the University System consists of seven community colleges. There are four community college campuses on the island of Oahu and one community college campus on each of the islands of Maui, Kauai, and Hawaii, making college classes accessible and affordable and easing the transition from high school to college for many students. Nine educational centers are located in the more remote areas of the State, and support the rural communities via interactive television classrooms. In addition to the University of Hawaii System, there are also three private universities and one private college on Oahu.

The University is accredited by the Accrediting Commission for Senior Colleges and Universities and the Accrediting Commission for Community and Junior Colleges ("ACCJC") of the Western Association of Schools and Colleges. All campuses meet or exceed their accreditation requirements. The most recent reaffirmation of accreditations at the University at Manoa and Hilo campuses were for 10 years each, and for seven years at the West Oahu campus. Each community college is separately accredited and the most recent reaffirmation of accreditation for each campus was for six years, the maximum allowed by ACCJC policy. Professional programs in curriculum are individually accredited by appropriate agencies. Students may transfer credits to other U.S. or foreign universities on the same basis as course credits are transferred by other accredited U.S. universities.

The University System provides students with one doctoral-research campus, two comprehensive baccalaureate campuses, and seven community college campuses located on the four major islands. Students of the University System can earn a variety of degrees including certificates in more than 100 fields of study, 117 associate degrees in liberal arts and career and technical education, bachelor's degrees in 139 programs, master's degrees in 91 programs, and doctoral degrees in 53 programs, including MD, JD, PharmD, and DArch degrees. In addition, the University maintains a co-operative extension program. The three University Centers extend access to baccalaureate or higher degrees and certificates in communities beyond the physical location of campuses. There are a total of 627 curricula offered in the University System.

The University at Manoa is a research university of international standing. It has a Carnegie classification of "Research University/Very High" research activity (RU/VH), the top classification for doctoral-research universities, and the closest to the old "Carnegie Research I University" classification no longer in use. Students have special opportunities for Hawaiian, Asian, and Pacific educational experiences and involvement in research activities, learning community service, and co-curricular activities. The University is one of 32 universities or consortia in the United States designated as a land, sea and space grant college. As a major research university, the University at Manoa has the capability of serving not only the State but the nation and the international community as well. The University at Manoa has widely recognized strengths in tropical agriculture, tropical medicine, oceanography, astronomy, electrical engineering, volcanology, evolutionary biology, comparative philosophy, comparative religion, Hawaiian studies, Asian studies, Pacific Islands studies, and Asian and Pacific region public health. The University at Manoa offers instruction in more languages than most American institutions. In addition to the University faculty expertise in benthic and pelagic oceanography, the Hawaii Institute of Marine Biology leads global research in coral reefs and zooxanthellae.

The University of Hawaii at Manoa is the University's flagship research campus and in fiscal year 2009 was ranked in the top 50 by the National Science Foundation out of all public universities in the United States in research expenditures. The University has research partnerships with local, mainland and international universities, research institutions and business organizations. The University has also been designated as the fifth Naval University Affiliated Research Center, which is expected to generate at least $10 million in additional funding per year beginning in 2012. The University also secures research funding from various other sources, including the State, the National Science Foundation, National Institutes of Health, Department of Defense, Department of Agriculture, National Aeronautics and Space Administration, Department of Energy and the Environmental Protection Agency. In 2006, the University was also awarded one of eight Regional Biocontainment Laboratory grants from the National Institutes of Health, valued at $32.5 million.

In 2010, the University began construction of the new Cancer Research Center of Hawaii next to the John A. Burns School of Medicine in Kakaako. The $180.4 million state-of-the-art research facility is expected to be completed in early 2013.

Federal government research agencies in Honolulu include the U.S. Bureau of Commercial Fisheries and the Environmental Science Services Administration. Among private research organizations on Oahu are the

Oceanic Institute and the Bishop Museum. The three high technology centers located on Oahu are the Mililani Technology Park, the Kaimuki Technology Enterprise and the Manoa Innovation Center.

Visitor Industry

The visitor industry encompasses an array of businesses, including hotels, restaurants, airlines, travel agencies, taxis, tour-bus operators, gift shops and other service and recreational industries.

After relatively modest growth in the second and third quarters of 2011, Hawaii's tourism sector performance improved in the fourth quarter of 2011. Both domestic and international visitor arrivals increased in the quarter compared with the same quarter in 2010. Due to longer lengths of stay, the increase in daily visitor census was larger than the increase in visitor arrivals. In addition, since visitors spent more on a daily basis during the fourth quarter, total visitor spending increased significantly higher than the increase in daily visitor census in the quarter. For the economy, visitor spending is more important than visitor arrivals. In addition, the statewide hotel occupancy rate was also increased in the quarter.

The total number of visitors arriving by air to Hawaii increased 60,116, or 3.5 percent, in the fourth quarter of 2011 compared to the same quarter of 2010. The total average daily census was up 9,567, or 5.4 percent, in the quarter. For the whole year of 2011, total visitor arrivals by air increased 242,720, or 3.5 percent, while the average daily census increased 9,303, or 5.2 percent, from the previous year.

Following a strong 13.5 percent growth in the fourth quarter of 2010, in the fourth quarter of 2011, total visitor arrivals on domestic flights increased 26,815, or 2.2 percent, compared to the same quarter of 2010. For the whole year of 2011, domestic arrivals were up 169,822, or 3.4 percent, from the previous year.

Continued with the strong growth in the fourth quarter of 2010, arrivals on international flights increased 33,301, or 6.7 percent, in the fourth quarter of 2011 compared to the fourth quarter of 2010. For the whole year of 2011, international arrivals were up 72,898, or 3.7 percent, from the previous year.

In terms of major market areas, from the fourth quarter of 2010 to the same period of 2011, arrivals from the U.S. West increased 7,779, or 1.1 percent; arrivals from the U.S. East increased 5,638, or 1.5 percent; and arrivals from Japan increased 2,962, or 1.0 percent. For the whole year of 2011, arrivals from U.S. West were up 70,230, or 2.4 percent; arrivals from the U.S. East were up 31,808, or 2.0 percent; and Japanese arrivals were down 62,760, or 5.1 percent, from the previous year.

Because of longer lengths of stay, the average total daily visitor census increased more than the increase in visitor arrivals. The total average daily visitor census was up 5.4 percent, or 9,567 visitors per day, in the fourth quarter of 2011 over the same quarter of 2010. Domestic average daily census increased 2.8 percent, or 3,777 visitors per day, while international average daily census increased 14.0 percent, or 5,790 visitors per day. In 2011, the domestic average daily census increased 5,628, or 4.1 percent, and the international average daily census increased 3,675, or 8.8 percent, from the previous year.

Nominal visitor expenditures by air totaled $3,307.4 million in the fourth quarter of 2011, up 14.9 percent, or $429.2 million, from the same quarter of 2010. For the whole year of 2011, visitor expenditures increased $1,689.4 million, or 15.6 percent, from the previous year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 0.8 percent, or 18,587 seats, in the fourth quarter of 2011; domestic seats decreased 3.9 percent, or 64,056 seats, while international seats increased 13.0 percent, or 82,643 seats, compared to the same quarter of 2010. For the whole year of 2011, the number of total available seats increased 1.0 percent, or 92,378 seats, from the previous year.

Current airline capacity levels reflect the opening of operations between Honolulu and Tokyo's Haneda Airport by Japan Airlines, All Nippon Airways and Hawaiian Airlines in the fourth quarter of 2010. Hawaiian also added a new route to Seoul in 2010 and service to Osaka-Kansai in the summer of 2011. In January 2011, Alaska Air introduced a non-stop flight between Bellingham, Washington and Honolulu. More recently, China Eastern

Airlines introduced non-stop service between Honolulu and Shanghai in August 2011, which is Hawaii's first regularly scheduled service to China. In addition, in September 2011, Delta Air Lines announced that it will introduce non-stop service between Honolulu and Fukuoka, Japan effective in December 2011.

In the fourth quarter of 2011, statewide hotel occupancy rate averaged 72.2 percent, up 2.7 percentage points from the same quarter of 2010. For the whole year of 2011, statewide hotel occupancy rate averaged 77.0 percent, up 6.3 percentage points from the previous year. On Oahu, hotel occupancy averaged 80.4 percent in the fourth quarter of 2011, up 2.7 percentage points from the same quarter of 2010, and 80.9 percent for the whole year, up 2.7 percentage points from 2010.

Select statistics on the visitor industry are set forth in the table below:

Table V

SELECTED STATE OF HAWAII AND OAHU VISITOR STATISTICS

	Year Ended December 31				
	2007	**2008**	**2009**	**2010**	**2011[3]**
Arrivals by Air – State [1]	7,497	6,713	6,420	6,917	7,160
Domestic	5,583	4,902	4,672	4,957	5,127
International	1,914	1,812	1,748	1,960	2,032
Arrivals by Air – Oahu [1]	4,695	4,194	4,025	4,274	4,398
Domestic	2,950	2,555	2,447	2,532	2,592
International	1,744	1,639	1,578	1,741	1,806
Average Daily Visitor Census – State [1]	189.4	172.5	165.1	177.9	187.2
Domestic	151.0	135.2	129.1	136.4	142.0
International	38.5	37.2	36.0	41.5	45.2
Visitor Expenditures – State [2]	$12,578	$11,182	$9,794	$10,858	$12,547
Hotel Occupancy Rate – State	75.0%	70.4%	64.8%	70.7%	77.0%
Hotel Occupancy Rate – Oahu	76.8%	75.0%	72.3%	78.2%	80.9%

(1) *In thousands.*

(2) *In millions of dollars. By persons arriving by air and staying overnight or longer (excludes supplemental business expenditures).*

(3) *2011 data are preliminary.*

Sources: State of Hawaii Department of Business, Economic Development & Tourism, PFK-Hawaii and Hospitality Advisors LLC.

Honolulu's profile as a visitor destination is enhanced by its role as host of numerous professional and trade conferences and conventions, as well as major sports events.

Conferences and conventions held in Honolulu annually attract thousands of visiting participants statewide, nationally and internationally. The primary site for these events is the Hawaii Convention Center, which is located near Waikiki hotel accommodations and visitor attractions.

In November 2011, Honolulu served as the primary location for the Asia-Pacific Economic Cooperation Conference (APEC), which drew thousands of attendees, including President Obama and other heads of state, ministers, political staff, business leaders, and generated global news coverage from approximately 1,200 registered media outlets.

As discussed below under "Sporting Events," major sports events held in Honolulu such as the NFL Pro Bowl and the Honolulu Marathon attract thousands of visitors annually.

The City and County of Honolulu continues to attract major investment to support the visitor industry, including hotels, restaurants, and recreation facilities.

Waikiki Beach Walk, an eight-acre complex bordered by Kalakaua Avenue, Lewers Street, Kalia Road, Beach Walk and Saratoga Road, was reconstructed in recent years as a showcase and gathering place in Waikiki, featuring an outdoor entertainment plaza, 40 new retailers, six restaurants, and four hotels. The Beach Walk project, which represents an investment of approximately $535 million, is part of Outrigger Enterprises' master plan for Waikiki. The project includes the Trump International Hotel, a 38-story, 464-unit condominium-hotel, and the recently completed $110 million renovation of the Outrigger Reef on the Beach property, converting 836 rooms into 639 larger rooms.

Other major projects in Waikiki include the $85 million renovation and retenanting of the Royal Hawaiian Shopping Center, providing additional retail and restaurant options for visitors; Ala Moana Shopping Center's addition of approximately 300,000 square feet; Hilton Grand Vacation Club's 38-story Grand Waikikian time-share located between the Hilton Hawaiian Village and Ilikai Hotel; the new Allure Waikiki on Kalakaua Avenue, a 35-story condominium; the new Waikiki Edition, a 353-room luxury hotel developed by boutique hotelier Ian Schrager and Marriott International in the former Yacht Harbor Tower of the Ilikai Hotel; and a $200 million renovation project at the Sheraton Waikiki Beach Resort.

There are also plans for an expansion of the Hilton Hawaiian Village, including two separate towers consisting of over 550 time share units. Construction of the towers is expected to begin in 2013 and 2018, respectively.

In the fall of 2011, the 451-room Ocean Resort Hotel Waikiki became the 426-room Hyatt Place Waikiki Beach as part of an extensive renovation and repositioning. Phase one involved the renovation of the 19-story Pali Tower, which reopened in December 2011. Phase two, the renovation of the 14-story Diamond Tower, is expected to be completed in the spring of 2012.

Kyo Ya, owner of all Oahu Sheraton properties, is scheduled to begin a $700 million redevelopment project at the Sheraton Princess Kaiulani in 2012, including construction of a new 34-story tower with both hotel and residential units. Kyo Ya has also received partial approval from the Honolulu Department of Planning and Permitting for a $700 million project at the Moana Surfrider that includes construction of a 26-story hotel and condominium complex.

Outside Waikiki, the Turtle Bay Resort, on Oahu's north shore, recently completed a $50 million renovation. In December 2010, a developer purchased the 359-room Pagoda Hotel and Floating Restaurant and is undertaking an estimated $6 million of renovations and upgrades to the hotel and dining facilities.

In addition, Disney recently completed its first Hawaii resort, named Aulani, an $800 million resort on 21 acres at Ko'Olina Resort & Marina. Opened in August 2011, the resort features 350 hotel rooms and 480 Disney Vacation Club time-share villas.

Sporting Events

Honolulu is a popular venue for sporting events. Aloha Stadium, located minutes from downtown Honolulu, hosts the University of Hawaii's football team each year. The National Football League's Pro Bowl game was held at Aloha Stadium annually from 1980 through 2009. The Pro Bowl was relocated to Miami in 2010, but returned to Honolulu in 2011 and was played in Honolulu again in January 2012. The future location of the game is uncertain. According to the Hawaii Tourism Authority, the 2011 Pro Bowl attracted an estimated 17,000 visitors to Honolulu and generated an estimated $28 million in spending and $3 million in state taxes.

The Waialae Country Club in East Honolulu is home to the Sony Hawaiian Open Golf Tournament on the PGA tour. Other major golf tournaments on the island include the Pearl Open and Pro-Am, Mid-Pacific Open, PGA Classic, Turtle Bay Resort Match Play Championship, and the Governor's Cup.

The Men's & Women's OP Pro Hawaii surfing competitions, the O'Neill World Cup surfing competition, and the Billabong Pipeline Masters are all held on Oahu.

The Honolulu Marathon, one of the largest in the world, has been held in City each December since 1973. In 2010, the Honolulu Marathon drew 28,600 participants, including 22,000 visitors, of which 18,000 were international visitors. The 2010 Marathon provided an estimated $100 million to the State's economy.

Arts and Entertainment

The Neal Blaisdell Center in downtown Honolulu includes a concert hall, arena, exhibition hall, and conference rooms and hosts a wide variety of attractions, including musical performances, trade shows, business meetings and sporting events. The Diamond Head Theatre is another live theatre venue in the City. The theatre is Hawaii's oldest performing arts center and typically seats over 40,000 patrons each year.

Honolulu Museum of Arts, founded in 1927, has a collection of over 50,000 works of art and administers the Academy Art Center at Linekona. The Arts of Paradise Gallery, located in Waikiki, features the art of more than 40 of local artists.

The Bishop Museum, located in downtown Honolulu, was founded in 1889 by a member of the Hawaiian royal family. The museum primarily focuses on history and science, and is home to the world's largest collection of Polynesian cultural and scientific artifacts.

The Mission Houses Museum, established in 1920, provides a glimpse into 19th century Hawaii life. The museum hosts a wide variety of events including lectures, gallery talks, public programs, demonstrations and workshops.

The Hawaii State Art Museum (HiSAM) exhibits the work of Hawaii Artists. Located in Honolulu's downtown Capitol District, HiSAM has three galleries, a 70-seat events room and a café.

Film and Television

Hawaii is a premier location for filming both television series and major motion pictures. In addition to the lush tropical setting, Hawaii offers a one-stop process to obtain State permits, tax incentives and the only state-owned and operated film studio in the country.

In 2010, Hawaii saw a historic rise in film, television and digital media productions. Production expenditures totaled an estimated $391 million for the year. Oahu continues to be the prime location within the State for media productions.

CBS's hit series Hawaii Five-O completed its first season of filming in Honolulu. CBS began filming the second season in July.

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APPENDIX B

Audited Financial Statements

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BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT

Fiscal Years Ended June 30, 2011 and 2010

N&K CPAs, Inc.
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BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

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Board of Water Supply
City and County of Honolulu
INTRODUCTION
Fiscal Year Ended June 30, 2011

The Board of Water Supply of the City and County of Honolulu (the BWS) is pleased to present its Annual Financial Report for the fiscal year 2011. This introduction provides an overview of the mission, organization, and operations of the BWS. The following management 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 auditors' report, follows the management's discussion and analysis.

Organization and Business

The BWS is a semi-autonomous agency of the City and County of Honolulu (City). Pursuant to the City Revised Charter, the BWS has full control of all municipal water systems of the City, together with all materials, supplies, and equipment, and all real and personal property used or useful in connection with such water systems. The BWS was established in 1929.

The Mayor of the City appoints five of the seven members of the Board of Directors. The other two are ex-officio members, the Director and Chief Engineer of the Department of Facility Maintenance, City and County of Honolulu, and the Director of the Department of Transportation of the State of Hawai'i.

The BWS consists of 14 Divisions and Support Offices - Business Development, Capital Projects, Communications, Customer Care, Finance, Human Resources, Information Technology, Legal, Field Operations, Water System Operations, Water Resources, Land, Security and the Office of the Manager and Chief Engineer. All are under the direction of the Manager and Chief Engineer (Manager), who is appointed by the Board of Directors, and the Deputy Manager.

The Board of Directors has the power to fix and adjust rates and charges for the furnishing of water and water services so that the revenues derived shall be sufficient to make the water system self-supporting. Rates and charges are determined on the basis of a recommendation by the Manager, subject to a public hearing to receive public testimony regarding any proposed rate increase, and final approval by the Board of Directors.

The BWS receives no revenues from taxation and depends solely upon revenues derived from its rates and charges to pay for its operations and debt service. The BWS may also receive funds from the federal, state, or county governments for capital improvement and other projects.

The BWS services 166,844 accounts and a residential population of 953,207. The service area covers the island of Oahu and is 596.7 square miles. The customer base includes the residential population, businesses and industries, and agriculture. Of the total accounts, 154,810 are residential (92.8%), representing 59.9% of the total amount received from water sales in fiscal year 2011; 11,149 are commercial and industrial (6.7%), representing 39.1% of the total amount received from water sales in fiscal year 2011; and 885 are agricultural (0.5%), representing 1.0% of the total amount received from water sales in fiscal year 2011.

The BWS provides potable quality water at reasonable rates, while managing the long-term viability of Oahu's water resources and protecting the environment. In addition to providing potable water of 147 million gallons per day (mgd), the BWS is capable of delivering approximately 10 mgd of recycled water for irrigation of various golf courses, landscaped areas in Ewa, and for industrial processing in Campbell Industrial Park.

Mission

The mission of the BWS is to provide a safe and dependable water supply now and into the future.

Three main strategic objectives emanate from this mission: resource, economic, and organizational sustainability.

- **Resource sustainability** ensures the protection of natural groundwater supplies by its efficient management.

- **Economic sustainability** calls for a diversity of financial resources to be employed to support system operating and capital needs, while keeping water rates affordable.

- **Organizational sustainability** calls for a sound, well structured, efficient organization with the tools and skills necessary to provide exceptional value to the BWS's customers, the community, and watersheds.

Looking Ahead

The BWS employees continue to concentrate their efforts and attention in support of the BWS's mission with a focus on the following strategic objectives:

1. Resource Sustainability

This strategic objective ensures that natural groundwater supplies are protected and managed efficiently. The BWS plans for a variety of strategies and projects in conservation, potable groundwater and alternative water supplies, including brackish, recycled and desalinated water to meet future demands. Its efforts also focus on protecting the natural environment, important watersheds and water sources by monitoring Oahu's rainfall and aquifer water levels and salinity, and taking appropriate precautions and actions to ensure the reliability of the island's potable water supplies.

- The BWS continues its successful leak detection and repair program, proactively identifying and repairing leaks before they become an emergency main break. By proactively reducing distribution system water loss to 10%, pumping costs are reduced and water resources are conserved.

- Recycled water is an important component of a host of conservation and drought mitigation strategies to reduce potable water consumption. The BWS continues to support the use of recycled water in the Ewa area as an appropriate and more efficient source of water for irrigation and industrial purposes. Recycled water use from the Honouliuli Water Recycling Facility continues to provide alternative water supply in Ewa for irrigation and industrial purposes. Recycled water production averaged 7.5 million gallons per day (mgd) in fiscal year 2011, which was on average 1.0 mgd less than 2010 due to the above average rainfall experienced during the winter and spring from a strong Pacific La Nina event.

- The Waianae and Koolauloa Watershed Management Plans (WMP) were adopted by the Honolulu City Council in August 2010 as Bills 9 and 10; respectively, revising Chapter 30, Revised Ordinances of Hawaii. The State Commission on Water Resource Management subsequently adopted the plans in March 2011. The Koolaupoko WMP is expected to be adopted in 2012 by the Honolulu City Council. The North Shore WMP was also initiated in 2011. These plans are the regional component of long-range strategic water plans for the City and County of Honolulu. Watershed management plans provide the strategic planning framework for watershed protection projects and water use and development for the BWS's long-range capital program, ensuring that adequate water supplies and water system infrastructure will meet Oahu's future water demands.

- The BWS and City Department of Environmental Services concluded the rebate program for low flow toilets in December 2010. The successful program facilitated replacement of residential high flow toilets and conserved millions of gallons of freshwater and reduced wastewater flows.

- The BWS implemented and expanded upon a wide array of public information and education programs that support and reinforce efforts to educate customers about the importance of conserving water throughout the year and about other BWS programs.

- The BWS continues to ensure that the community's potable water supply complies with all Federal and State safe drinking water regulations by monitoring changes in safe drinking water regulations and installing new and replacement water treatment facilities as necessary.

2. Economic Sustainability

The second strategic objective calls for a sound financial strategy to support the BWS's operating and capital needs. While operation and construction costs steadily increase, the BWS continues to focus its efforts on improving its core services by addressing aging infrastructure and ensuring the reliability and quality of water provided to all customers in the City.

- The BWS implemented a five (5) percent water rate increase on July 1, 2010. The additional revenue was necessary to fund infrastructure repair and replacement programs and to keep up with the rising cost of delivering water to customers. The BWS has developed a five (5) year rate proposal that is now being considered by its Board of Directors.

- The BWS charges a power cost adjustment to recover unexpected electrical cost surcharges incurred during the prior fiscal year (FY 2010). On July 1, 2010, the power cost adjustment charge was 2.8 cents for every 1,000 gallons of water used. The power cost adjustment is reviewed annually so that the adjustment only recovers unanticipated energy cost surcharges from the prior fiscal year.

- A total of $26.1 million in capital program contracts, of which $4.3 million are professional services contracts, were awarded as of June 30, 2011. The repair, replacement and improvement projects proactively address the needs of our aging infrastructure to ensure continuity of core services. In addition, $6.9 million of operating budget contracts were awarded that provide the necessary waterworks materials, services and supplies, automotive and construction equipment and information technology systems to support our core operations.

- According to the American Water Works Association, water utilities nationwide should strive for roughly 25-30 breaks per 100 miles of pipeline. The BWS ratio was better than the national benchmark. In fiscal year 2011, the BWS employees responded to a total of 331 main breaks or about 16 breaks per 100 miles of pipeline.

- The BWS is replacing its 14-year-old customer information and billing system with a state-of-the-art Customer Information System (CIS). The CIS system will provide BWS customer service representatives and other users with a system that is more reliable, faster, easier to use, and will allow the staff to provide better service to customers.

- The BWS's web-based Geographic Information System (GIS) has been upgraded and gives department users access to updated imagery, enhanced functionality, and faster performance. In addition, the ongoing Global Positioning System (GPS) asset collection and verification project that started in Halawa has progressed clockwise around the island to Sand Island and Kalihi. To date, 221,032 BWS assets have been located and mapped and more than 32,322 asset locations (e.g. meters, valves, hydrants, and manholes) have been added. Many of these assets had been asphalted over, buried or overgrown with brush.

- The BWS consolidated its computer servers and has reduced the number of systems from 64 to 4. This consolidation has significantly reduced electrical power, air conditioning, physical space and maintenance and support requirements.

- The BWS replaced aging security camera systems at key pump stations and reservoirs with more efficient digital systems. These new systems are networked based and provide higher quality video images, wider coverage, enhanced functionality, significantly improved detection capability, and greater reliability. The new camera system greatly increases the BWS's ability to detect and respond to intruders.

- The BWS wireless network project continues with the completion of a high speed wireless backbone on the leeward side of the island from Koko Head to Makakilo. The wireless backbone connects relay sites, the main office at Beretania, BWS corporation yards, and the BWS disaster recovery center near the Airport at speeds similar to fiber optic connections. The wireless links are more cost effective and provide faster speeds than wired connections.

3. Organizational Sustainability

The BWS's third objective calls for a sound, well structured, efficient organization with the tools and skills necessary to provide exceptional value to customers, the community and watersheds.

- The BWS successfully processed more than 222,450 customer calls and inquiries regarding bill payments, delinquent bills, set-up and closing of water service, or new water services during the fiscal year. Additionally, the BWS processed 32,399 water service investigations, 6,270 building permit reviews, and 516 cross connection permit reviews. The BWS employees were consistently commended for their efforts to resolve customer needs in a timely and efficient manner.

- The BWS worked continually with the City Department of Emergency Management and Hawaii State Civil Defense to insure the effectiveness of its plans and procedures in place to respond effectively to emergency situations such as a tropical cyclone, an island wide power outage, pandemic flu, tsunami, or other events.

- Employee development continues to be a top priority for the BWS. Opportunities for employees to learn more about their field and to enhance their leadership and team building skills are readily available.

- In order to provide effective emergency response as a major utility, the BWS committed to having all of its employees complete basic certification under the Federal National Incident Management System (NIMS). As of this juncture, the BWS achieved a 99.8 percent completion compliance rate.

- Open communication with public employee union shop stewards of the Hawaii Government Employees Association (HGEA) and United Public Workers (UPW) continues to foster improved labor-management relationships. The meetings are a forum where stewards are able to obtain clarification and guidance on personnel-related questions and concerns. These sessions also encourage open dialogue to clarify issues before they become problematic.

- Employee recognition programs are a key element to foster employee morale and encourage continuing excellence. These programs continue to be an important priority for BWS management.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the statements of net assets of the Board of Water Supply (the BWS), a component unit of the City and County of Honolulu, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the fiscal years then ended. These financial statements are the responsibility of the BWS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis information on pages 10-15 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

N&K CPAs, Inc.

Honolulu, Hawaii
October 14, 2011

This section presents the management's discussion and analysis of the BWS's financial condition and activities for the fiscal year ended June 30, 2011. This information should be read in conjunction with the financial statements.

Financial Highlights

The BWS implemented the last of five (5) scheduled annual rate increases in July 2010 to meet rising costs of delivering water to customers and to continue its infrastructure repair and replacement programs. Water rates increased by five (5) percent, approximately $1.69 more on monthly water charges for an average single-family residential customer, effective July 1, 2010.

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 assets increased by $12.4 million in fiscal year 2011 compared to $17.4 million in fiscal year 2010.
- Total assets at year-end were $1.4 billion, which exceeded liabilities by $1.0 billion.
- The BWS's unrestricted current assets at June 30, 2011 were 5.1 times its related current liabilities compared to 4.5 times at June 30, 2010.
- The BWS's debt to equity ratio was 32.9% at June 30, 2011, indicating the continuance of capacity to issue additional debt.
- Management periodically reviews and recommends changes to its schedule of rates and charges. Accordingly, the Executive Leadership Team has analyzed and identified its capital requirements, operational needs, workforce requirements and vital support functions and developed a five year rate proposal that is currently being considered by the BWS Board of Directors.

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 a statement of net assets, a statement of revenues, expenses and changes in net assets, a statement of cash flows, and notes to the financial statements. The statement of net assets presents the resources and obligations of the BWS at June 30, 2011. The statement of revenues, expenses and changes in net assets presents the results of operations for the fiscal year then ended, and the resultant ending net asset balance.

The statement of cash flows presents 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.

The notes to the financial statements provide required disclosures and other information necessary for the fair presentation of the financial statements. The notes detail information about the BWS's significant accounting policies, significant account balances, related party transactions, employee benefit plans, commitments, contingencies, and other significant events. Supplementary information on post-employment benefits other than pensions, outstanding bonds and net revenue requirements are also included.

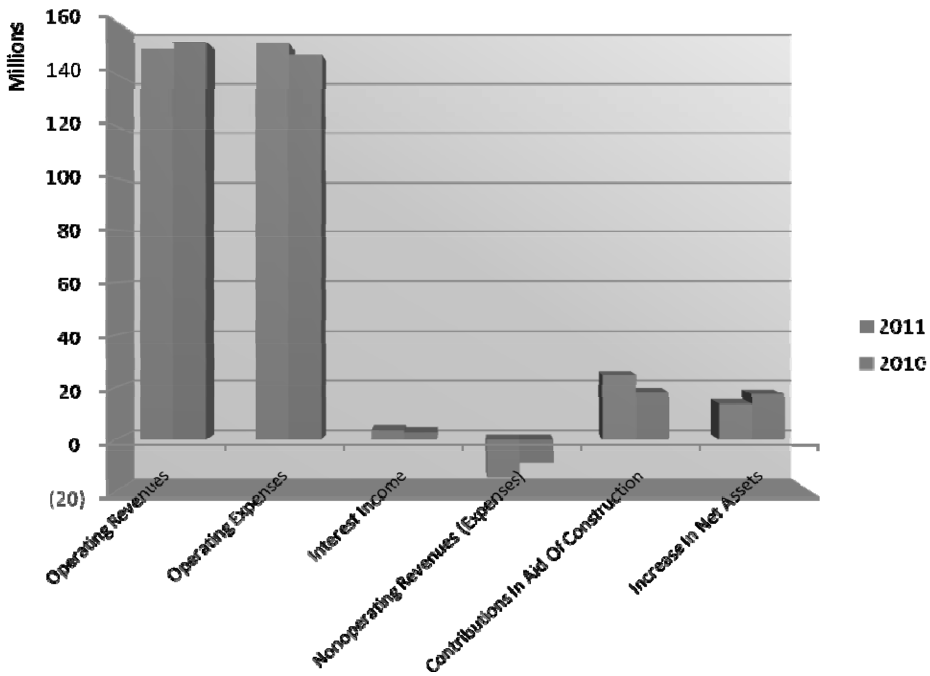
Financial Analysis

Results of Operations

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30, 2011 (in thousands)	June 30, 2010 (in thousands)	% Change
Operating revenues	$ 149,894	$ 152,248	-1.5%
Operating expenses:			
Depreciation	41,247	40,101	2.9%
Administrative and general	42,137	40,363	4.4%
Power and pumping	28,631	27,967	2.4%
Other operating expenses	39,818	39,079	1.9%
Total operating expenses	151,833	147,510	2.9%
Earnings (loss) from operations	(1,939)	4,738	
Nonoperating revenues(expenses):			
Interest income	3,929	3,108	26.4%
Others	(14,434)	(8,540)	69.0%
Total nonoperating revenues (expenses)	(10,505)	(5,432)	93.4%
Contributions in aid of construction	24,838	18,130	37.0%
Increase in net assets	$ 12,394	$ 17,436	

Statement of Revenues, Expenses and Changes in Net Assets



The increase in net assets for the fiscal year ended June 30, 2011 was $12.4 million, compared to an increase of $17.4 million for fiscal year ended June 30, 2010.

Operating revenues for fiscal year 2011 were $149.9 million, a decrease of $2.4 million from fiscal year 2010 revenues of $152.2 million.

Total operating expenses increased to $151.8 million in fiscal year 2011, an increase of $4.3 million from fiscal year 2010. Factors contributing to this change are explained below.

Administrative and general expenses increased $1.8 million mainly due to an increase in other post-employment benefits paid offset by a decrease in expenditures for Information Technology (IT) contractual services.

Power and Pumping expenses increased $0.7 million from fiscal year 2010. This was primarily due to an increase in electricity costs of $2.4 million offset by a decrease in the purchase of granular activated carbon (GAC) in the amount of $1.4 million.

In the other operating expense categories, expenses increased $0.7 million. This was mainly comprised of an increase in transmission maintenance.

Non-operating expenses increased by $5.1 million due primarily to an increase in the loss from disposition of property and an increase in the unrealized loss on investments.

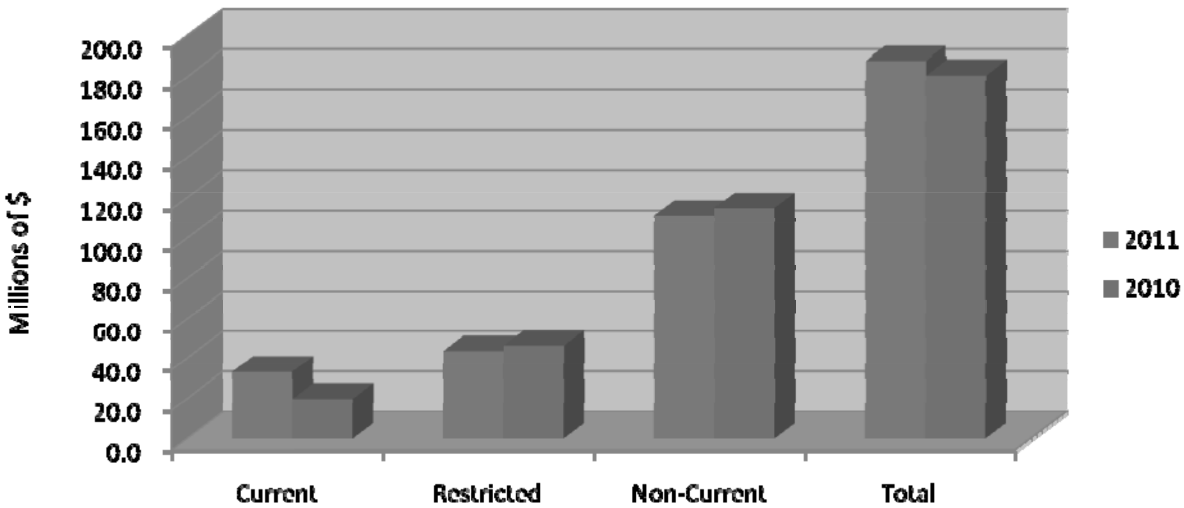
Contributions in aid of construction result from water system facilities charges that are levied against all new developments and residential properties requiring water from the BWS's systems, except those developments that have paid for and installed a complete water system, including sources, transmission, 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 $24.8 million in fiscal year 2011 compared to $18.1 million in fiscal year 2010. The increase in contributions in aid of $6.7 million was due to an increase in projects completed by governmental funds of $11.3 million. In fiscal year 2011, the major developments completed were Fort Weaver Road widening and East Kapolei reservoir, access road and transmission mains.

Financial Condition

CONDENSED STATEMENTS OF NET ASSETS

	June 30,		%
	2011	2010	Change
	(in thousands)		
Current Assets			
Cash and equivalents	$ 7,159	$ 3,487	105.3%
Investments	26,034	16,483	57.9%
Other current assets	26,658	26,862	-0.8%
Restricted Assets			
Cash and equivalents	14,975	14,376	4.2%
Investments	28,532	31,696	-10.0%
Investments	110,862	114,659	-3.3%
Other Assets	2,805	2,944	-4.7%
Property, plant and equipment, net of accumulated depreciation	1,157,677	1,158,273	-0.1%
Total assets	$ 1,374,702	$ 1,368,780	0.4%
Current liabilities	$ 11,750	$ 10,301	14.1%
Other liabilities	61,786	62,678	-1.4%
Bonds payable, noncurrent	291,632	298,661	-2.4%
Total liabilities	365,168	371,640	-1.7%
Net Assets:			
Invested in capital assets, net of related debt	834,243	833,275	0.1%
Restricted for capital activity and debt service	25,609	23,779	7.7%
Unrestricted	149,682	140,086	6.9%
Total net assets	1,009,534	997,140	1.2%
Total liabilities and net assets	$ 1,374,702	$ 1,368,780	0.4%

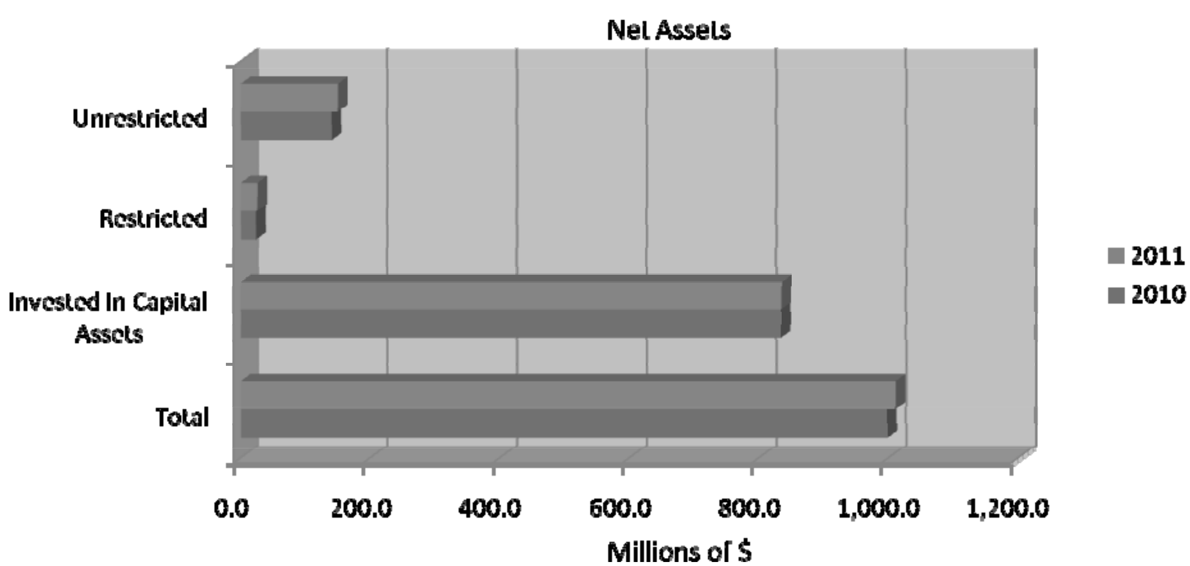
Cash and Investments



Effective July 1, 2010, the BWS increased its water rates by five (5) percent. A water rate increase for fiscal year 2012 is under consideration.

The BWS's unrestricted current assets at June 30, 2011 were 5.1 times its related current liabilities compared to 4.5 times at June 30, 2010. The ratio increase was due to an increase in cash and investments.

Net assets increased by $12.4 million or 1.2%; from $997.1 million in fiscal year 2010 to $1.0 billion at the end of fiscal year 2011. This reflects consistent operating revenue and increases in contributions in aid offset by increases in other non-operating expenses.



Capital Assets and Long-Term Debt

During the fiscal year, the BWS capitalized $69.0 million to its utility plant in service. Major assets added were Farrington Highway: 30 inch and 24 inch mains, $16.7 million; East Kapolei 215' 4 MG Reservoir, access road and transmission mains, $10.4 million; Kalihi water system improvements, $8.0 million; Kapahulu water system improvements, $4.2 million; and Wilhelmina Rise water system improvements, $4.1 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 32.9% for fiscal year 2011 and 33.7% for fiscal year 2010.

All outstanding debt has been assigned ratings of AA2 from Moody's Investors Service, AA from Standard and Poor's, and AA+ from Fitch.

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 requirement for the fiscal year ended June 30, 2011.

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.

Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET ASSETS
June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,159,813	$ 3,487,079
Investments	26,034,201	16,482,685
Interest receivable	894,933	752,966
Customer receivables		
Billed, less allowances for uncollectible accounts of $1,232,871 in 2011 and $266,000 in 2010	8,653,986	8,453,666
Unbilled	8,486,868	10,542,540
Other receivables, less allowances for uncollectible accounts of $510,868 in 2011 and 2010	3,694,772	2,828,835
Materials and supplies	4,508,600	3,975,581
Prepaid expenses	417,974	309,735
Total current assets	59,851,147	46,833,087
RESTRICTED ASSETS		
Cash and cash equivalents	14,974,855	14,375,577
Investments	28,532,116	31,695,804
Total restricted assets	43,506,971	46,071,381
INVESTMENTS	110,862,238	114,658,716
BOND ISSUE COSTS		
Net of accumulated amortization of $1,023,727 in 2011 and $884,588 in 2010	2,804,798	2,943,937
CAPITAL ASSETS		
Land	32,373,064	32,373,064
Infrastructure	1,303,009,505	1,244,973,961
Building and improvements	148,085,176	147,577,951
Equipment and machinery	237,113,104	231,508,650
Construction work in progress	162,737,147	187,997,848
	1,883,317,996	1,844,431,474
Less accumulated depreciation	725,640,773	686,158,609
Capital assets - net	1,157,677,223	1,158,272,865
TOTAL	$ 1,374,702,377	$ 1,368,779,986

See accompanying notes to financial statements.

Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET ASSETS (Continued)
June 30, 2011 and 2010

	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable from current assets		
Accounts payable	$ 5,436,825	$ 4,968,748
Contracts payable, including retainages	3,550,195	2,899,628
Accrued vacation, current portion	1,875,947	2,159,016
Other	886,797	273,463
	11,749,764	10,300,855
Payable from restricted assets		
Contracts payable, including retainages	2,057,177	3,359,718
Accrued interest payable	7,297,300	7,444,334
Bonds payable, current portion	6,710,000	6,435,000
Notes payable, current portion	1,533,389	1,516,446
Other	300,160	458,142
	17,898,026	19,213,640
Total current liabilities	29,647,790	29,514,495
OTHER LIABILITIES		
Customer advances	2,210,966	1,872,552
Accrued vacation, noncurrent portion	3,973,247	4,554,344
Accrued workers' compensation	2,235,157	1,910,131
Other postemployment benefits	1,008,000	2,921,377
Notes payable, noncurrent portion	31,802,717	29,415,864
Accrued arbitrage rebate and yield restriction	954,413	1,137,568
Other	1,704,062	1,652,698
Total other liabilities	43,888,562	43,464,534
BONDS PAYABLE - NONCURRENT	291,631,677	298,660,605
Total liabilities	365,168,029	371,639,634
NET ASSETS		
Invested in capital assets - net of related debt	834,242,829	833,274,750
Restricted for capital activity and debt service	25,608,944	23,779,387
Unrestricted	149,682,575	140,086,215
Total net assets	1,009,534,348	997,140,352
TOTAL	$ 1,374,702,377	$ 1,368,779,986

See accompanying notes to financial statements.

Board of Water Supply
City and County of Honolulu
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Water sales	$ 146,287,716	$ 148,444,285
Other, principally contract and service fees	3,606,760	3,803,346
Total operating revenues	149,894,476	152,247,631
OPERATING EXPENSES		
Depreciation	41,246,765	40,100,917
Administrative and general	42,137,019	40,363,049
Power and pumping	28,631,436	27,967,429
Transmission and distribution	14,977,311	14,987,474
Maintenance	13,832,056	13,266,809
Water reclamation	4,794,146	4,685,011
Customers' accounting and collection	2,877,189	3,052,034
Central administrative services expense fees	3,300,000	3,000,000
Source of supply	37,368	44,541
Water treatment	--	43,013
Total operating expenses	151,833,290	147,510,277
EARNINGS (LOSS) FROM OPERATIONS	(1,938,814)	4,737,354
NONOPERATING REVENUES (EXPENSES)		
Interest income	3,929,911	3,107,953
Interest expense, net of interest capitalized of $2,112,248 in 2011 and $4,488,384 in 2010	(12,045,462)	(9,857,566)
Loss from disposal of capital assets	(1,483,091)	(533,808)
Realized and unrealized gain (loss) on investments	(1,608,476)	330
Other	702,150	1,851,145
Total nonoperating expenses	(10,504,968)	(5,431,946)
CONTRIBUTIONS IN AID OF CONSTRUCTION	24,837,778	18,130,080
INCREASE IN NET ASSETS	12,393,996	17,435,488
NET ASSETS AT BEGINNING OF FISCAL YEAR	997,140,352	979,704,864
NET ASSETS AT END OF FISCAL YEAR	$ 1,009,534,348	$ 997,140,352

See accompanying notes to financial statements.

Board of Water Supply
City and County of Honolulu
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 150,883,891	$ 149,505,660
Payments to suppliers for goods and services	(64,274,574)	(59,396,629)
Payments to employees for services	(48,147,484)	(47,333,969)
Other operating receipts - net	1,157,502	1,653,887
Net cash provided by operating activities	39,619,335	44,428,949
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(329,999,834)	(316,570,550)
Proceeds from maturity of investments	325,800,008	292,682,700
Interest on investments	3,604,789	4,617,179
Net cash used in investing activities	(595,037)	(19,270,671)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets - net of contributions in aid of construction of $19,603,732 in 2011 and $9,554,346 in 2010	(22,226,745)	(28,567,663)
Proceeds from sale of capital assets	324,172	54,016
Customer payments for capital projects	5,666,024	6,530,006
Principal paid on bonds	(6,435,000)	(6,165,000)
Interest paid on bonds	(14,348,737)	(14,616,599)
Proceeds from notes payable	3,931,784	7,057,649
Interest paid on notes payable	(135,796)	(138,316)
Principal paid on notes payable	(1,527,988)	(1,501,040)
Net cash used in capital and related financing activities	(34,752,286)	(37,346,947)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,272,012	(12,188,669)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	17,862,656	30,051,325
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR (including $14,974,855 in 2011 and $14,375,577 in 2010 in restricted accounts)	$ 22,134,668	$ 17,862,656

Board of Water Supply
City and County of Honolulu
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
RECONCILIATION OF EARNINGS (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Earnings (loss) from operations	$ (1,938,814)	$ 4,737,354
Adjustments to reconcile earnings (loss) from operations to net cash provided by operating activities:		
Depreciation	42,532,577	41,642,446
Provision for doubtful accounts	(1,265,346)	32,813
Provision for workers' compensation	325,026	53,521
Other revenues	702,150	1,851,139
Change in operating assets and liabilities:		
Customer receivables	3,120,698	(1,301,481)
Materials and supplies	(533,019)	449,583
Other receivables	(865,937)	(1,473,303)
Prepaid expenses and other	(108,239)	(257,838)
Accounts and contracts payable	14,630	181,394
Accrued vacation	(864,166)	(336,112)
Other postemployment benefits	(1,913,377)	(911,121)
Other liabilities	413,152	(239,446)
Net cash provided by operating activities	$ 39,619,335	$ 44,428,949
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 at their cost or estimated cost	$ 19,603,732	$ 9,554,346
Amortization of bond issue costs	$ 139,139	$ 139,139
Amortization of bond premium/discount	$ (483,195)	$ (508,371)
Amortization of deferred loss on refunding	$ 164,267	$ 101,986

See accompanying notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) ***Operations*** - The 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 (City). The BWS has full and complete authority to manage, control and operate the City's water system and related properties.

(2) ***Financial Statement Presentation*** - The BWS is a component unit of the City (the primary government).

The BWS follows Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* Under GASB No. 20, the BWS applies all applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The BWS does not apply FASB statements and interpretations issued after November 30, 1989.

(3) ***Basis of Accounting*** - The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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 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.

(4) ***Use of Estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(5) ***Regulation and Water Rates*** - Article VII of the Revised Charter of the City and County of Honolulu (City Charter) 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 BWS is required to follow certain procedures that include holding public hearings before implementing changes in the water rate schedules.

(6) ***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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) ***Investments*** - Investments are stated at fair value. Fair value has been determined based on quoted market prices. The cost of securities sold is generally determined by the weighted average method.

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

(9) ***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 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.

(10) ***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. 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 asset's estimated useful life using the straight-line method. Depreciation on both purchased and contributed assets is charged against operations.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The ranges of estimated economic 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

(11) ***Bond Issue Costs, Original Issue Discount or Premium and Deferred Loss on Refundings*** - Bond issue costs are deferred and are amortized over the life of the respective issue on a straight-line basis. Original issue discount or premium and deferred loss on refundings are also amortized using the straight-line method over the terms of the respective issues and are added to or offset against the bonds payable in the statements of net assets.

(12) ***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.

(13) ***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.

(14) ***Net Assets*** - Net assets comprise the various net earnings from operating and nonoperating revenues, expenses, and contributions in aid of construction. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, 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 invested in capital assets, net of related debt. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation. Unrestricted consists of all other net assets not included in the above categories.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) ***Revenue Recognition*** - The BWS's policy is to bill customers on a cyclical monthly or bi-monthly basis for water usage. 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.

(16) ***Pension Expense*** - The BWS's contributions to the Employees' Retirement System of the State of Hawaii are based upon actuarial computations and include current service costs and amortization of prior service costs. The BWS's policy is to fund pension costs accrued.

(17) ***Deferred Compensation Plan*** - All full-time employees are eligible to participate in the City and County of Honolulu's Public Employees' Deferred Compensation Plan (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 (annuity contract) 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.

(18) ***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	$ 500,000
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.

(19) ***Reclassification*** - Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE B - CASH AND INVESTMENTS

Cash deposited with the City is maintained in separate accounts by the Department of Budget and Fiscal Services of the City. 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 mainly of U.S. government securities. Investments and securities issued by U.S. government-sponsored enterprises are recorded at fair value based on quoted market prices.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the BWS's investment policy includes:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Credit Risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. Because the BWS invests primarily in obligations of the U.S. government or U.S. government-sponsored enterprises, it is not exposed to significant credit risk.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the BWS will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. All investments are registered in the name of the BWS and are held in the possession of a broker/dealer firm. At June 30, 2011, approximately $5,137,800 in cash and cash equivalents and all investments were held by a broker/dealer firm. Cash, cash equivalents and investments held by the broker/dealer firm are insured up to $500,000, of which up to $250,000 may be uninvested cash, by the Securities Investor Protection Corporation (SIPC). Excess coverage purchased from a private insurer by the broker/dealer firm is designed to provide additional protection up to the full net equity value of each account.

NOTE B - CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk - Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. Financial instruments, which potentially expose the BWS to concentrations of credit risk, consist primarily of investments in debt securities. Concentration of credit risk related to investments in debt securities has been mitigated by limiting such investments to primarily debt obligations of the U.S. government and U.S. government-sponsored enterprises.

At June 30, 2011 and 2010, investments consisted of the following:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
U. S. government treasury obligations - short-term	$ 20,792,968	$ 20,624,509	$ 12,899,760	$ 12,822,286
U.S. government agencies short-term	19,026,959	18,575,920	8,392,588	8,302,438
Corporate bonds - short-term	--	--	1,816,391	1,813,770
U. S. government treasury obligations	41,515,477	41,659,732	64,139,280	64,754,957
U.S. government agencies	84,097,035	83,472,081	36,913,245	36,963,778
Corporate bonds	1,095,610	1,096,313	37,808,984	38,179,976
	$ 166,528,049	$ 165,428,555	$ 161,970,248	$ 162,837,205

At June 30, 2011, credit quality distribution for investments, with credit exposure as a percentage of total investments were as follows:

			Credit Quality Rating as of June 30, 2011			
	Percent of Total	Fair Value	Aaa	Aa	A	Not Rated
U. S. government treasury obligations	38 %	$ 62,284,241	$ 62,284,241	$ --	$ --	$ --
U.S. government agencies						
Federal National Mortgage Association	34 %	56,335,154	55,523,966	631,188	--	180,000
Federal Home Loan Mortgage Corporation	17 %	28,775,329	28,775,329	--	--	--
Federal Home Loan Bank	8 %	12,707,746	10,507,744	--	--	2,200,002
Federal Farm Credit Bank	2 %	4,229,772	4,229,772	--	--	--
Corporate bonds	1 %	1,096,313	1,096,313	--	--	--
	100 %	$ 165,428,555	$ 162,417,365	$ 631,188	$ --	$ 2,380,002

NOTE B - CASH AND INVESTMENTS (Continued)

At June 30, 2011, the maturities of the investments were as follows:

		Investment Maturities (In Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	Than 10
U. S. government treasury obligations - short-term	$ 20,624,509	$ 20,624,509	$ --	$ --	$ --
U.S. government agencies short-term	18,575,920	18,575,920	--	--	--
U. S. government treasury obligations	41,659,732	--	41,659,732	--	--
U.S. government agencies	83,472,081	--	83,472,081	--	--
Corporate bonds	1,096,313	--	1,096,313	--	--
	$ 165,428,555	$ 39,200,429	$ 126,228,126	$ --	$ --

The investments are reflected in the statements of net assets as of June 30, 2011 and 2010 are as follows:

	2011	2010
Investments		
Unrestricted - current	$ 26,034,201	$ 16,482,685
Unrestricted - noncurrent	110,862,238	114,658,716
Restricted	28,532,116	31,695,804
Total	$ 165,428,555	$ 162,837,205

NOTE C - RESTRICTED ASSETS

At June 30, 2011 and 2010, restricted assets were held for the following purposes:

	2011	2010
Construction, renewals, and replacements	$ 2,922,776	$ 6,010,768
Debt service	40,584,195	40,060,613
	$ 43,506,971	$ 46,071,381

NOTE D - CAPITAL ASSETS

Capital assets activity during 2011 and 2010, were as follows:

	Balance July 1, 2010	Additions	Transfers	Retirements	Balance June 30, 2011
Depreciable assets					
Infrastructure	$ 1,244,973,961	$ 18,917,108	$ 42,334,951	$ (3,216,515)	$ 1,303,009,505
Buildings and improvements	147,577,951	452,800	78,668	(24,243)	148,085,176
Equipment and machinery	231,508,650	4,345,826	2,875,541	(1,616,913)	237,113,104
Total depreciable assets	1,624,060,562	23,715,734	45,289,160	(4,857,671)	1,688,207,785
Less accumulated depreciation	(686,158,609)	(42,532,578)	--	3,050,414	(725,640,773)
Total depreciable assets - net	937,901,953	(18,816,844)	45,289,160	(1,807,257)	962,567,012
Land	32,373,064	--	--	--	32,373,064
Construction work in progress	187,997,848	32,210,834	(57,471,535)	--	162,737,147
Capital assets - net	$ 1,158,272,865	$ 13,393,990	$ (12,182,375)	$ (1,807,257)	$ 1,157,677,223

	Balance July 1, 2009	Additions	Transfers	Retirements	Balance June 30, 2010
Depreciable assets					
Infrastructure	$ 1,217,427,723	$ 9,498,396	$ 19,069,500	$ (1,021,658)	$ 1,244,973,961
Buildings and improvements	146,070,343	--	1,671,721	(164,113)	147,577,951
Equipment and machinery	223,487,928	3,118,105	6,475,821	(1,573,204)	231,508,650
Total depreciable assets	1,586,985,994	12,616,501	27,217,042	(2,758,975)	1,624,060,562
Less accumulated depreciation	(646,687,315)	(41,642,445)	--	2,171,151	(686,158,609)
Total depreciable assets - net	940,298,679	(29,025,944)	27,217,042	(587,824)	937,901,953
Land	32,373,064	--	--	--	32,373,064
Construction work in progress	187,570,801	36,317,525	(35,890,478)	--	187,997,848
Capital assets - net	$ 1,160,242,544	$ 7,291,581	$ (8,673,436)	$ (587,824)	$ 1,158,272,865

NOTE D - CAPITAL ASSETS (Continued)

Depreciation of $1,285,813 and $1,541,529 was allocated to various functions and not to depreciation expense in fiscal year 2011 and 2010, respectively.

The BWS received $63,890 and $51,561 in proceeds from the sale of capital assets in fiscal year 2011 and 2010, respectively.

NOTE E - BONDS PAYABLE

At June 30, 2011 and 2010, bonds payable consisted of the following:

	2011	2010
Water System Revenue Bonds, Series 2001, annual principal due ranging from $810,000 to $1,535,000 through July 1, 2021, with interest ranging from 4.5% to 5.5%.	$ 11,780,000	$ 13,250,000
Water System Revenue Bonds, Series 2004, annual principal due ranging from $2,205,000 to $6,245,000 through July 1, 2033, with interest ranging from 3% to 5%.	79,875,000	82,015,000
Water System Revenue Bonds, Series 2006A, annual principal due commencing July 1, 2012, ranging from $975,000 to $11,965,000 through July 1, 2036, with interest ranging from 4% to 5%.	165,195,000	165,195,000
Water System Revenue Bonds, Series 2006B, annual principal due ranging from $2,335,000 to $4,455,000 through July 1, 2021, with interest ranging from 5% to 5.25%.	38,110,000	40,935,000
	294,960,000	301,395,000
Add unamortized premium	5,390,505	5,879,553
Less unamortized discount	(117,027)	(122,879)
Less deferred loss on refunding	(1,891,801)	(2,056,069)
Less current portion	(6,710,000)	(6,435,000)
Noncurrent portion	$ 291,631,677	$ 298,660,605

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 at 100 percent of the principal amount plus accrued interest without premium.

NOTE E - BONDS PAYABLE (Continued)

Bonds payable activity during 2011 and 2010, were as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Water System Revenue Bonds:					
Series 2001	$ 13,250,000	$ --	$ (1,470,000)	$ 11,780,000	$ 1,535,000
Series 2004	82,015,000	--	(2,140,000)	79,875,000	2,205,000
Series 2006A	165,195,000	--	--	165,195,000	--
Series 2006B	40,935,000	--	(2,825,000)	38,110,000	2,970,000
	$ 301,395,000	$ --	$ (6,435,000)	$ 294,960,000	$ 6,710,000

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Water System Revenue Bonds:					
Series 2001	$ 14,655,000	$ --	$ (1,405,000)	$ 13,250,000	$ 1,470,000
Series 2004	84,095,000	--	(2,080,000)	82,015,000	2,140,000
Series 2006A	165,195,000	--	--	165,195,000	--
Series 2006B	43,615,000	--	(2,680,000)	40,935,000	2,825,000
	$ 307,560,000	$ --	$ (6,165,000)	$ 301,395,000	$ 6,435,000

Future bond principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	6,710,000	14,071,000	20,781,000
2013	7,005,000	13,776,000	20,781,000
2014	7,320,000	13,460,000	20,780,000
2015	7,660,000	13,119,000	20,779,000
2016	8,030,000	12,753,000	20,783,000
2017 - 2021	46,435,000	57,475,000	103,910,000
2022 - 2026	59,995,000	44,636,000	104,631,000
2027 - 2031	76,475,000	28,244,000	104,719,000
2032 - 2036	65,290,000	9,596,000	74,886,000
2037	10,040,000	251,000	10,291,000
Total	$ 294,960,000	$ 207,381,000	$ 502,341,000

NOTE E - BONDS PAYABLE (Continued)

In February 2001, the BWS created an irrevocable trust with an escrow agent to retire $32,460,000 of the BWS's outstanding 1992 general obligation water bonds. The escrow agent will pay all future debt service payments on the 1992 Series bonds out of the irrevocable trust. Consequently, the 1992 Series bonds were considered to be defeased and the liability for the bonds was removed from the BWS's financial statements in 2001. At June 30, 2011 and 2010, the outstanding 1992 Series defeased bonds amounted to $14,005,000 and $16,350,000, respectively.

In July 2006, the BWS issued $213,805,000 in water system revenue bonds which consisted of $165,195,000 of Series 2006A and $48,610,000 of Series 2006B bonds. A portion of the proceeds of the issuance were used to refund, on a current basis, all of the BWS's outstanding Series 2002 bonds and to advance refund a portion of the outstanding 2001 Series and 2004 Series bonds. Consequently, a portion of the 2001 Series and 2004 Series bonds were considered to be defeased and were removed from the BWS's financial statements in 2007. At June 30, 2011 and 2010, the outstanding 2001 Series and 2004 Series defeased bonds amounted to $43,895,000 and $8,105,000, respectively.

The debt refunding that occurred during 2007 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $2,464,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2036 using the straight-line method.

NOTE F - NOTES PAYABLE

The BWS's notes payable as of June 30, 2011 and 2010 are summarized as follows:

	2011	2010
Notes payable to Department of Health		
Note payable in semi-annual installments of approximately $56,100, including interest at .10%, secured by net revenues of the BWS, due June 2025.	$ 1,560,194	$ 1,551,166
Balance forward	$ 1,560,194	$ 1,551,166

NOTE F - NOTES PAYABLE (Continued)

	2011	2010
Balance carried forward	$ 1,560,194	$ 1,551,166
Notes payable to Department of Health (Continued)		
Note payable in semi-annual installments of approximately $104,400, including interest at .31%, secured by net revenues of the BWS, due November 2025.	2,959,439	3,158,668
Note payable in semi-annual installments of approximately $10,200, including interest at .10%, secured by net revenues of the BWS, due January 2027.	314,564	334,697
Note payable in semi-annual installments of approximately $302,500 including interest at .10%, secured by net revenues of the BWS, due February 2026.	9,006,109	9,554,407
Non-interest bearing payable in semi-annual installments of approximately $74,900, secured by net revenues of the BWS, due September 2025.	2,173,640	2,323,546
Note payable in semi-annual installments of approximately $32,500 including interest at .01%, secured by net revenues of the BWS, due March 2028.	1,104,297	1,169,199
Note payable in semi-annual installments of approximately $70,200 including interest at .01%, secured by net revenues of the BWS, due August 2027.	2,315,472	2,455,684
Note payable in semi-annual installments of approximately $49,700 including interest at .01%, secured by net revenues of the BWS, due March 2028.	1,688,563	1,787,801
Balance forward	$ 21,122,278	$ 22,335,168

NOTE F - NOTES PAYABLE (Continued)

	2011	2010
Balance carried forward	$ 21,122,278	$ 22,335,168
Notes payable to Department of Health (Continued)		
Note payable in semi-annual installments of approximately $36,100 including interest at .36%, secured by net revenues of the BWS, due June 2028.	1,188,078	1,255,800
Non-interest bearing principal forgiveness notes secured by net revenues of the BWS.	9,140,265	5,366,052
Notes payable to other lenders		
Note payable in annual installments of $188,570, including interest at 5%, due September 2025. Each annual installment is divided into 12 monthly payments of principal and interest of $15,715.	1,885,485	1,975,290
	33,336,106	30,932,310
Less current maturities	1,533,389	1,516,446
	$ 31,802,717	$ 29,415,864

The aggregate future maturities of notes payable and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 1,533,400	$ 118,600	$ 1,652,000
2013	1,549,800	112,400	1,662,200
2014	1,556,400	105,800	1,662,200
2015	1,563,200	99,000	1,662,200
2016	1,570,300	91,900	1,662,200
2017 - 2021	7,968,200	342,900	8,311,100
2022 - 2026	7,752,300	117,800	7,870,100
2027 - 2028	9,842,506	700	9,843,206
	$ 33,336,106	$ 989,100	$ 34,325,206

NOTE G - OTHER LONG-TERM LIABILITIES

The following is a summary of changes in other long-term liabilities during the fiscal years ended June 30, 2011 and 2010:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Customer advances	$ 1,872,552	$ 5,234,046	$ (4,895,632)	$ 2,210,966	$ --
Accrued vacation	6,713,360	1,011,781	(1,875,947)	5,849,194	1,875,947
Accrued workers' compensation	1,910,131	1,285,551	(960,525)	2,235,157	--
Other postemployment benefits	2,921,377	10,426,000	(12,339,377)	1,008,000	--
Notes payable	30,932,310	3,931,785	(1,527,989)	33,336,106	1,533,389
Accrued arbitrage rebate liability	1,137,568	--	(183,155)	954,413	--
Other	1,652,698	540,465	(489,101)	1,704,062	--
	$ 47,139,996	$ 22,429,628	$ (22,271,726)	$ 47,297,898	$ 3,409,336

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Current Portion
Customer advances	$ 3,529,760	$ 6,521,811	$ (8,179,019)	$ 1,872,552	$ --
Accrued vacation	7,049,472	1,822,904	(2,159,016)	6,713,360	2,159,016
Accrued workers' compensation	1,856,610	629,916	(576,395)	1,910,131	--
Notes payable	3,832,498	7,862,000	(8,773,121)	2,921,377	--
Other postemployment benefits	25,375,701	7,057,648	(1,501,039)	30,932,310	1,516,446
Accrued arbitrage rebate liability	--	1,137,568	--	1,137,568	--
Other	2,083,418	303,546	(734,266)	1,652,698	--
	$ 43,727,459	$ 25,335,393	$ (21,922,856)	$ 47,139,996	$ 3,675,462

NOTE H - NET ASSETS

At June 30, 2011 and 2010, net assets consisted of the following:

	2011	2010
Invested in capital assets - net of related debt		
Capital assets - net	$ 1,157,677,223	$ 1,158,272,865
Less water system revenue bonds payable, noncurrent portion	(291,631,677)	(298,660,605)
Less other loans payable	(31,802,717)	(29,415,864)
Add unspent debt proceeds	--	3,078,354
	$ 834,242,829	$ 833,274,750

NOTE H - NET ASSETS (Continued)

	2011	2010
Restricted for capital activity and debt service		
Restricted cash and cash equivalents	$ 14,974,855	$ 14,375,577
Restricted investments	28,532,116	31,695,804
Less unspent debt proceeds	--	(3,078,354)
Less		
Contracts payable, including retainages	(2,057,177)	(3,359,718)
Accrued interest payable	(7,297,300)	(7,444,334)
Bonds payable, current portion	(6,710,000)	(6,435,000)
Notes payable, current portion	(1,533,389)	(1,516,446)
Other payable from restricted assets	(300,160)	(458,142)
	25,608,945	23,779,387
Unrestricted	149,682,574	140,086,215
	$ 1,009,534,348	$ 997,140,352

NOTE I - LEASES

The BWS 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. The agreements are generally based on fixed annual amounts, with provisions for increases. Information regarding the cost and related accumulated depreciation of these facilities, which is required to be disclosed by professional standards, is not provided because the accumulation of such data was not considered practical and because the information, when compared to the future minimum rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods and the long period of time over which the properties were acquired.

The BWS also leases space for its deep seawater cooling project on Oahu under a noncancelable operating lease that extends through September 2025.

NOTE I - LEASES (Continued)

The future minimum rental payments and sublease income from these operating leases at June 30, 2011, approximated the following:

Fiscal Year Ending June 30,	Minimum Future Rental Payments	Less Sublease Income	Net Minimum Future Rental (Income) Expense
2012	$ 158,600	$ 175,300	$ (16,700)
2013	158,600	145,600	13,000
2014	158,600	127,900	30,700
2015	158,600	125,500	33,100
2016	158,600	115,500	43,100
2017-2021	792,800	507,400	285,400
2022-2026	667,300	500,000	167,300
2027-2031	--	500,000	(500,000)
2032	--	50,000	(50,000)
	$ 2,253,100	$ 2,247,200	$ 5,900

NOTE J - RELATED PARTY TRANSACTIONS

Billing and Collection Services - 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 $1,421,400 and $1,903,200 for the fiscal years ended June 30, 2011 and 2010, respectively. The revenues related to these fees are included in other operating revenues in the accompanying statements of revenues, expenses and changes in net assets.

Central Administrative Services Expense Fee - 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 a CASE fee to the extent that it represents a reasonable charge for services necessary for the BWS to perform its duties. As of June 30, 2011 and 2010, CASE fees totaled $3,300,000 and $3,000,000, respectively.

Amount from the City - Amounts due from the City approximated $2,115,798 and $1,339,788 as of June 30, 2011 and 2010, respectively, and is included in other receivables.

Joint Construction Projects - The BWS has entered into an agreement with the City for a joint water and sewer system upgrade that is administered by the BWS. During the fiscal years ended June 30, 2011 and 2010, the City advanced approximately $186,579 and $-0- respectively, to the BWS for the City's share of total project expenses. At June 30, 2011 and 2010, approximately $1,355,136 and $1,479,686, respectively, of these funds have not been expended. Accordingly, the balances are included in other liabilities in the accompanying statements of net assets.

NOTE K - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

Substantially all eligible employees of the BWS are members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer defined benefit public employee retirement 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 a contributory, noncontributory and hybrid contributory retirement plan. Prior to June 30, 1984, the plan consisted of only a contributory option. Effective July 1, 1984, legislation was enacted to create a noncontributory plan for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the noncontributory plan and receive a refund of employee contributions.

All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003 is based on the three highest paid years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar year plus lump sum vacation payment, or last 36 credited months or last 60 credited months plus lump sum vacation payment.

Most covered employees under the contributory plan are required to contribute 7.8% of their salary. Prior to July 1, 2005, the funding method used to calculate the total employer contribution requirement was the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS were comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 29 years from July 1, 2000. Effective July 1, 2008, employer contribution rates are a fixed percentage of compensation, generally 15.0% for most covered employees. The BWS's contributions to the ERS as of June 30, 2011, 2010, and 2009, were approximately $4,540,000, $4,866,000, and $4,928,000, respectively, which represented approximately 15% of the BWS's covered payroll for the fiscal years ended June 30, 2011, 2010, and 2009, respectively.

The 2004 State of Hawaii legislative sessions approved a hybrid retirement plan, which took effect on July 1, 2006. Employees who chose to be under this plan are required to contribute 6.0% of their salary and will receive pensions based on a 2.0% benefit formula instead of a 1.25% benefit formula under the current noncontributory plan. The hybrid plan does not affect the BWS's contributions to the ERS.

NOTE K - EMPLOYEE BENEFIT PLANS (Continued)

ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information, which may be obtained at the following address: Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

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 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.

For employees hired 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 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 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 ten 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), 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 ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE K - EMPLOYEE BENEFIT PLANS (Continued)

For the fiscal years ended June 30, 2011, 2010 and 2009, the components of the BWS's annual OPEB costs, the amounts contributed to the plan and the changes to the BWS's net OPEB obligation are summarized as follows:

	2011	2010	2009
Annual required contribution	$ 10,387,000	$ 7,837,000	$ 7,577,000
Interest on net OPEB obligation	191,000	131,000	101,000
Adjustment to annual required contribution	(152,000)	(106,000)	(78,000)
Annual OPEB cost	10,426,000	7,862,000	7,600,000
Contributions made	(12,339,000)	(8,773,000)	(5,206,000)
Increase (decrease) in net OPEB obligation	(1,913,000)	(911,000)	2,394,000
Net OPEB obligation at beginning of fiscal year	2,921,000	3,832,000	1,438,000
Net OPEB obligation at end of fiscal year	$ 1,008,000	$ 2,921,000	$ 3,832,000
Percentage of annual OPEB cost contributed	118%	112%	69%

The funded status of the plan as of the most recent valuation date is 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, 2007	$ --	$ 94,188,000	$ 94,188,000	0%	$ 29,115,000	323%
July 1, 2009	$ 5,244,000	$ 143,333,000	$ 138,089,000	4%	$ 33,104,000	417%

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

NOTE K - EMPLOYEE BENEFIT PLANS (Continued)

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, 2009, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a discount rate of 7%, projected salary increases of 3.5%, and an annual health cost trend rate of 10.5%, reduced by decrements to an ultimate rate of 5% after 8 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amounts 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, 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

NOTE L - COMMITMENTS

At June 30, 2011 and 2010, accumulated sick leave aggregated approximately $17,730,000 and $19,660,000, 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 ERS.

Other commitments, primarily for utility plant construction, approximated $66,430,000 and $63,900,000 at June 30, 2011 and 2010, respectively. Such amounts are to be funded by operating revenues, contributed capital, cash and investments on hand.

NOTE M - CONTINGENCIES

Workers' Compensation Self-Insurance Liability

The BWS is self-insured for workers' compensation and disability claims below $600,000 and in excess of $25,000,000. The BWS has obtained excess insurance coverage for claims that are not self-insured. All claims are reported to and managed by the City's Workers' Compensation Division (the Division). The BWS provides reserves for claims not covered by insurance that in the opinion of the Division will result in probable judgment against the BWS.

NOTE M - CONTINGENCIES (Continued)

The liability for losses and loss adjustment expenses is comprised of two components: 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. At June 30, 2011 and 2010, the arbitrage rebate and yield restriction liability totaled $954,413 and $1,137,568, respectively.

Determination of the arbitrage liability is a significant estimate. It is reasonably possible that one or more future events could result in a material change in the liability in the near term.

Safe Drinking Water

The BWS is subject to the requirements of the Safe Drinking Water Act (the Act), which is administered by the State of Hawaii Department of Health on behalf of the United States Environmental Protection Agency. Management 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 a material adverse effect on the BWS's financial position, results of operations, or liquidity.

SUPPLEMENTARY SCHEDULES

Board of Water Supply
City and County of Honolulu
Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS
June 30, 2011

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, 2007	$ --	$ 94,188,000	$ 94,188,000	0%	$ 29,115,000	323%
July 1, 2009	$ 5,244,000	$ 143,333,000	$ 138,089,000	4%	$ 33,104,000	417%

Board of Water Supply
City and County of Honolulu
SUPPLEMENTARY SCHEDULE FOR BONDS PAYABLE
June 30, 2011

	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (1)	Outstanding June 30, 2011
Water System Revenue Bonds Series 2001					
	5.000%	5/15/2001	7/1/2011	(2)	$ 200,000
	4.500%	5/15/2001	7/1/2011	(2)	1,335,000
	5.375%	5/15/2001	7/1/2012	7/1/2011	60,000
	4.600%	5/15/2001	7/1/2012	7/1/2011	750,000
	4.700%	5/15/2001	7/1/2013	7/1/2011	845,000
	5.500%	5/15/2001	7/1/2014	7/1/2011	890,000
	5.500%	5/15/2001	7/1/2015	7/1/2011	940,000
	5.500%	5/15/2001	7/1/2016	7/1/2011	760,000
	5.000%	5/15/2001	7/1/2016	7/1/2011	230,000
	5.000%	5/15/2001	7/1/2017	7/1/2011	1,045,000
	5.125%	5/15/2001	7/1/2018	7/1/2011	1,095,000
	5.125%	5/15/2001	7/1/2019	7/1/2011	1,150,000
	5.125%	5/15/2001	7/1/2020	7/1/2011	1,210,000
	5.125%	5/15/2001	7/1/2021	7/1/2011	1,270,000
					$ 11,780,000

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

Board of Water Supply
City and County of Honolulu
SUPPLEMENTARY SCHEDULE FOR BONDS PAYABLE (Continued)
June 30, 2011

	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (1)	Outstanding June 30, 2011
Water System Revenue Bonds Series 2004					
Insured Serial Bonds:					
	3.000%	1/28/2004	7/1/2011	(2)	$ 2,205,000
	3.500%	1/28/2004	7/1/2012	(2)	2,280,000
	4.000%	1/28/2004	7/1/2013	(2)	2,365,000
	4.000%	1/28/2004	7/1/2014	(2)	2,465,000
	4.750%	1/28/2004	7/1/2018	7/1/2014	2,970,000
	4.750%	1/28/2004	7/1/2019	7/1/2014	3,115,000
	4.750%	1/28/2004	7/1/2020	7/1/2014	3,265,000
	5.000%	1/28/2004	7/1/2021	7/1/2014	3,430,000
	5.000%	1/28/2004	7/1/2022	7/1/2014	3,605,000
	5.000%	1/28/2004	7/1/2023	7/1/2014	3,790,000
	5.000%	1/28/2004	7/1/2024	7/1/2014	3,985,000
	5.000%	1/28/2004	7/1/2025	7/1/2014	4,185,000
Insured Term Bonds:	5.000%	1/28/2004	7/1/2033	7/1/2014	42,215,000
					$ 79,875,000

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

Board of Water Supply
City and County of Honolulu
SUPPLEMENTARY SCHEDULE FOR BONDS PAYABLE (Continued)
June 30, 2011

	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (1)	Outstanding June 30, 2011
Water System Revenue Bonds Series 2006A (Non-AMT)					
Insured Serial Bonds:	4.000%	7/7/2006	7/1/2012	(2)	$ 975,000
	4.000%	7/7/2006	7/1/2013	(2)	1,015,000
	4.000%	7/7/2006	7/1/2014	(2)	1,050,000
	4.250%	7/7/2006	7/1/2015	(2)	3,660,000
	4.250%	7/7/2006	7/1/2016	(2)	3,820,000
	4.000%	7/7/2006	7/1/2017	(2)	3,000,000
	4.125%	7/7/2006	7/1/2017	(2)	975,000
	4.200%	7/7/2006	7/1/2018	(2)	1,185,000
	5.000%	7/7/2006	7/1/2019	7/1/2016	595,000
	4.125%	7/7/2006	7/1/2019	(2)	645,000
	4.125%	7/7/2006	7/1/2020	(2)	1,290,000
	5.000%	7/7/2006	7/1/2021	7/1/2016	3,315,000
	4.300%	7/7/2006	7/1/2021	(2)	390,000
	4.500%	7/7/2006	7/1/2022	(2)	7,860,000
	4.500%	7/7/2006	7/1/2023	(2)	8,225,000
	4.500%	7/7/2006	7/1/2024	(2)	8,595,000
	5.000%	7/7/2006	7/1/2025	7/1/2016	9,010,000
	5.000%	7/7/2006	7/1/2026	7/1/2016	9,470,000
	4.500%	7/7/2006	7/1/2027	(2)	9,925,000
Insured Term Bonds:	4.750%	7/7/2006	7/1/2028	7/1/2016	10,390,000
	4.750%	7/7/2006	7/1/2029	7/1/2016	10,890,000
	4.750%	7/7/2006	7/1/2030	7/1/2016	11,420,000
	4.750%	7/7/2006	7/1/2031	7/1/2016	11,965,000
	5.000%	7/7/2006	7/1/2032	7/1/2016	8,220,000
	5.000%	7/7/2006	7/1/2033	7/1/2016	8,640,000
	5.000%	7/7/2006	7/1/2034	7/1/2016	9,080,000
	5.000%	7/7/2006	7/1/2035	7/1/2016	9,550,000
	5.000%	7/7/2006	7/1/2036	7/1/2016	10,040,000
					$ 165,195,000

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

Board of Water Supply
City and County of Honolulu
SUPPLEMENTARY SCHEDULE FOR BONDS PAYABLE (Continued)
June 30, 2011

	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (1)	Outstanding June 30, 2011
Water System Revenue Bonds Series 2006B (AMT) Insured Serial Bonds:					
	5.000%	7/7/2006	7/1/2011	(2)	$ 2,970,000
	5.000%	7/7/2006	7/1/2012	(2)	2,940,000
	5.000%	7/7/2006	7/1/2013	(2)	3,095,000
	5.000%	7/7/2006	7/1/2014	(2)	3,255,000
	5.000%	7/7/2006	7/1/2015	(2)	3,430,000
	5.000%	7/7/2006	7/1/2016	(2)	3,605,000
	5.250%	7/7/2006	7/1/2017	7/1/2016	3,800,000
	5.250%	7/7/2006	7/1/2018	7/1/2016	4,005,000
	5.250%	7/7/2006	7/1/2019	7/1/2016	4,220,000
	5.250%	7/7/2006	7/1/2020	7/1/2016	4,455,000
	5.250%	7/7/2006	7/1/2021	7/1/2016	2,335,000
					38,110,000
					$ 294,960,000

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

Board of Water Supply
City and County of Honolulu
SUPPLEMENTAL SCHEDULE OF NET REVENUE REQUIREMENT
Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
REVENUES		
Water sales	$ 146,287,716	$ 148,444,285
Interest	3,929,911	3,107,953
Other	4,308,910	5,654,491
Total revenues	154,526,537	157,206,729
DEDUCTIONS		
Operating expenses	151,833,290	147,510,277
Less depreciation expense	(42,532,578)	(41,642,445)
Total deductions	109,300,712	105,867,832
Net revenues	$ 45,225,825	$ 51,338,897
NET REVENUE REQUIREMENT		
Greater of:		
1) Aggregate debt service	$ 20,923,074	$ 20,919,399
Required deposits	--	--
	$ 20,923,074	$ 20,919,399
2) Aggregate debt service	$ 20,923,074	$ 20,919,399
	x 1.20	x 1.20
	$ 25,107,689	$ 25,103,279
Net revenue requirement	$ 25,107,689	$ 25,103,279
Net revenue to aggregate debt service ratio	2.16	2.45

APPENDIX C

Form of Continuing Disclosure Certificate

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Board of Water Supply (the "Board") of the City and County of Honolulu, Hawaii (the "City and County"), acting on behalf of the Department of Water Supply (the "Department") of the City and County in connection with the issuance of $85,195,000 Water System Revenue Bonds, Series 2012A (the "Bonds"). The Bonds are being issued pursuant to Chapter 49, Hawaii Revised Statutes, and the Revised Charter of the City and County of Honolulu, as amended (collectively, the "Act"), and the proceedings of the Board, including Water System Revenue Bond Resolution adopted by the Board on April 26, 2001 (the "Bond Resolution") and the Series Resolution adopted by the Board on February 27, 2012 (the "2012 Series Resolution"). The Bond Resolution, as previously supplemented, as supplemented by the 2012 Series Resolution and as it may be further amended and supplemented, is referred to herein as the "Resolution." The Board hereby covenants and agrees as follows:

Section 1. ***Purpose of the Disclosure Certificate.*** This Disclosure Certificate is being executed and delivered by the Board for the benefit of the holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

Section 2. ***Definitions.*** In addition to the definitions set forth in the Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the Board pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" means any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, to make investment decisions concerning the ownership of, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" means the Board, or any successor Dissemination Agent designated in writing by the Board and which has filed with the Board a written acceptance of such designation.

"Listed Events" means any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at *http://emma.msrb.org*.

"Official Statement" shall mean the Official Statement, dated March 14, 2012, prepared and distributed in connection with the initial sale of the Bonds.

"Participating Underwriters" means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. ***Provision of Annual Reports.***

(a) The Board shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of each fiscal year of the Board (presently June 30), commencing with the report for the fiscal year ending June 30, 2012, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. If the Board's fiscal year changes, the Board, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) In a timely manner prior to the date set forth in subsection (a) above, the Board shall provide the Annual Report to the Dissemination Agent (if other than the Board). If the Board is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Board shall send a notice to the MSRB in substantially the form attached as Exhibit A. The audited financial statements of the Department may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Board) file a report with the Board certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. ***Content of Annual Reports.***

(a) The Annual Report shall contain or incorporate by reference the following information:

(i) Audited financial statements of the Department for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Department's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement relating to the Bonds, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available; and

(ii) The financial information and operating data with respect to the Department for each fiscal year of the Department of the type included in the Official Statement under the headings "FINANCIAL INFORMATION," and "PENDING LITIGATION."

(b) Information contained in an Annual Report for any fiscal year containing any modified operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Report shall present a comparison between the financial statements or information prepared on the basis of modified accounting principles and those prepared on the basis of former accounting principles.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues of the Board or related public entities, which have been made available to the public on the MSRB's website. The Board shall clearly identify each such other document so included by reference.

Section 5. ***Reporting of Significant Events.***

(a) Pursuant to the provisions of this Section 5, the Board shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

i. Principal and interest payment delinquencies;

ii. Unscheduled draws on debt service reserves reflecting financial difficulties;

iii. Unscheduled draws on credit enhancements reflecting financial difficulties;

iv. Substitution of credit or liquidity providers, or their failure to perform;

v. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

vi. Tender offers;

vii. Defeasances;

viii. Rating changes; or

ix. Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Board shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

i. Unless described in paragraph 5(a)(v), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

ii. Modifications to rights of Bondholders;

iii. Optional, unscheduled or contingent Bond calls;

iv. Release, substitution, or sale of property securing repayment of the Bonds;

v. Non-payment related defaults;

vi. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

vii. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Board shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4, as provided in Section 4.

(d) Whenever the Board obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Board shall determine if such event would be material under applicable federal securities laws.

(e) If the Board learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Board shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

Section 6. ***Termination of Reporting Obligation.*** The Board's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment of amounts fully sufficient to pay and discharge the Bonds, or upon delivery to the Board or the Dissemination Agent (if other than the Board) of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Bonds, the Board shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. ***Dissemination Agent.*** From time to time, the Board may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Board shall be the Dissemination Agent. The initial Dissemination Agent shall be the Board. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The Dissemination Agent shall not be responsible for the form or content of any Annual Report, notice of Listed Event, or other document furnished to the Dissemination Agent by the Board. The Dissemination Agent shall receive reasonable compensation for its services provided hereunder. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the Board.

Section 8. ***Amendment Waiver.*** Notwithstanding any other provision of this Disclosure Certificate, the Board may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, change in law (including rules or regulations) or in interpretations thereof, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Certificate for amendments to the Certificate with the consent of Holders, or (ii) does not, in the opinion of the Board, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Board shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Board. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. ***Additional Information.*** Nothing in this Disclosure Certificate shall be deemed to prevent the Board from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Board chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Board shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. ***Default.*** In the event of a failure of the Board to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Board or the Dissemination Agent (if other than the Board), as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Certificate, and the sole remedy under this Disclosure Certificate in the event of any failure of the Board or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. ***Duties, Immunities and Liabilities of Dissemination Agent.*** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Board agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Board under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. ***Beneficiaries.*** This Disclosure Certificate shall inure solely to the benefit of the Board, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: March __, 2012

____
[Name/Title]
Board of Water Supply
City and County of Honolulu

The above and foregoing certificate is hereby approved as to form and legality this __ day of March, 2012:

____
Robert Carson Godbey
Corporation Counsel
City and County of Honolulu

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Board of Water Supply, City and County of Honolulu, Hawaii
Name of Bond Issue:	Water System Revenue Bonds, Series 2012A
Date of Issuance:	March __, 2012

NOTICE IS HEREBY GIVEN that the Board of Water Supply of the City and County of Honolulu, Hawaii (the "Board") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated March __, 2012, executed by the Board for the benefit of the holders and beneficial owners of the above-referenced Bonds. The Board anticipates that the Annual Report will be filed by _____________.

Dated: ___________________________

CITY AND COUNTY OF HONOLULU, HAWAII

By: ____
Authorized Signatory

APPENDIX D

Proposed Form of Opinion of Bond Counsel

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[Date of Delivery]

Board of Water Supply of the
City and County of Honolulu
Honolulu, Hawaii

Re: Board of Water Supply of the City and County of Honolulu
Water System Revenue Bonds, Series 2012A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Board of Water Supply (the "Board") of the City and County of Honolulu (the "City and County") in connection with the issuance of $________ aggregate principal amount of its Water System Revenue Bonds, Series 2012A (the "Bonds"), pursuant to proceedings of the Board, including a Bond Resolution, adopted April 26, 2001 and a Series Resolution, adopted on _________, 2012 (collectively, the "Resolution"), and a Series Certificate of an authorized officer of the Board dated _________, 2012 (the "Certificate"). Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Certificate.

In such connection, we have reviewed the Resolution, the Certificate, the Tax Certificate of the Board, dated the date hereof (the "Tax Certificate"), an opinion of Corporation Counsel of the City and County, certificates of the Board and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Board. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the pledge of the Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Board.

2. The Bonds are payable from and are secured by the net revenues and other funds pledged to the payment thereof pursuant to the Resolution.

3. The Resolution has been duly adopted and constitutes the valid and binding obligation of the Board, and the Certificate has been duly executed and delivered by an authorized officer of the Board and constitutes the valid and binding obligation of the Board.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

Summary of Certain Provisions of the Resolution

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SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The Resolution contains terms and conditions relating to the issuance of Bonds, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive, and is subject to all of the provisions of the Resolution, to which reference is hereby made. Copies of the Resolution are available from the Board. This summary uses various terms defined in the Resolution. Summaries of certain of these definitions are set forth below.

Certain Definitions

"*Accreted Value*" means, with respect to any Capital Appreciation Bond, (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Bond or in a Series Certificate relating to such Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve 30-day months, and (2) the difference between the Accreted Values for such Valuation Dates.

"*Accrued Debt Service*" means as of any date of computation and with respect to the Bonds of any Series, an amount equal to the sum of: (i) interest on such Bonds accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) principal, Sinking Fund Installment and redemption premium which are due and unpaid for such Series of Bonds and that portion of the principal, unsatisfied balance of any Sinking Fund Installment (as determined in accordance with the Resolution) and redemption premium for such Series of Bonds next due which would have accrued to the end of such calendar month if deemed to accrete monthly from a date one year prior to its due date.

"*Additional Bonds Requirement*" means the financial test required to be satisfied as set forth in the Board's certificate or the Consulting Engineer's certificate required by the Resolution to be delivered prior to issuing a Series of Bonds.

"*Aggregate Debt Service*" means, for any period and as of any date of computation, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds.

"*Appreciated Value*" means, with respect to any Deferred Income Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Bond or a Series Certificate relating to such Bond and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Appreciated Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve 30-day months, and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date.

"*Assumed Long-Term Fixed Rate*" means, with respect to any Variable Rate Bonds, (i) a numerical rate of interest that such Bonds would have borne if issued as Fixed Rate Bonds with the same maturity and taking into account Sinking Fund Installments and (ii) if the Board has in connection with such Variable Rate Bonds entered into an Interest Rate Exchange Agreement which provides that the Board is to pay to another person an amount determined based upon a fixed rate of interest on a notional amount and which requires the Counterparty to pay to the Board an amount equal to the amount by which interest on the notional amount stated therein at the rate borne by such Variable Rate Bonds exceeds the interest payable on such notional amount at a rate stated therein, the fixed rate or other rate of interest set forth in or determined in accordance with such agreement. With respect to the Bonds described in clause (i) of the preceding sentence, an Authorized Officer of the Board shall certify or cause the Remarketing Agent for Such Series of Variable Rate Bonds or other qualified person to certify such Assumed Long-Term Fixed Rate on the issue date of such Bonds, taking into account such market factors as such Authorized Officer of the Board or such Remarketing Agent or such qualified person shall deem necessary or appropriate.

"*Authorized Officer*" means the Manager, the Chief Financial Officer or other officer designated by resolution of the Board.

"*Bond Anticipation Notes*" means obligations issued in anticipation of the subsequent issuance of Bonds, as provided in the Resolution.

"*Bond Counsel*" means an attorney or a firm of attorneys, selected by the City and County or the Board, of nationally recognized standing in the field of law relating to obligations of states and political subdivisions.

"*Bondholder*" or "*Holder of a Bond*" or "*Holder*" means the registered owner of any Bond which at the time shall be registered other than to bearer, or such holders' duly authorized attorney in fact, representative or assigns.

"*Capital Appreciation Bond*" means any Bond as to which interest is compounded as provided in the Resolution and is payable only at the maturity or prior redemption thereof.

"*Chief Financial Officer*" means the officer or deputy officer of the Board charged with the responsibility for managing and supervising the financial and fiscal matters of the Board.

"*Code*" means the Internal Revenue Code of 1986, any successor statutes thereto and any applicable regulations issued thereunder.

"*Consulting Engineer*" means any engineer or engineering firm or corporation retained from time to time by or on behalf of the Board pursuant to the Resolution to perform the acts and carry out the duties provided for such Consulting Engineer in the Resolution.

"*Costs*" means all costs of any Improvement and shall include, but shall not be limited to, all costs and estimated costs of the issuance of the Bonds, all architectural, engineering, inspection, financial and legal expenses, the cost of causing the payment of the principal or interest or both of the Bonds to be insured or guaranteed, the initial cost of any Support Facility or Interest Rate Exchange Agreement obtained or permitted by the Act, and interest which it is estimated will accrue during the construction of any Improvement and for six (6) months thereafter.

"*Counterparty*" means any person with which the Board has entered into an Interest Rate Exchange Agreement.

"*Debt Service*" means, as of any particular date of computation, with respect to any Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside in such period for the payment (or retirement) of the principal and Redemption Price (if any) of, and interest (to the extent not capitalized) on, such Bonds: provided, however, that the term "Debt Service" shall not include interest on Bonds to the extent it is to be paid from amounts credited to a Series Capitalized Interest Account, from amounts credited to the Payment Account or from any other source provided for such payment.

"*Deferred Income Bond*" means any Bond as to which interest accruing thereon prior to the Interest Commencement Date of such Bond is compounded on each Valuation Date for such Deferred Income Bond, and as to which interest accruing after the Interest Commencement Date is payable on the interest payment dates established in the Series Resolution or Series Certificate providing for the issuance of such Deferred Income Bonds.

"*Depositary*" means any bank, national banking association or trust company selected and appointed by an Authorized Officer in accordance with the Resolution as a depositary of moneys and Investment Securities held under the provisions of the Resolution.

"*Director of Budget and Fiscal Services*" means the Director of Budget and Fiscal Services of the City and County appointed pursuant to and having the powers as set forth in the City Charter.

"*Exempt Obligation*" means an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated in one of the two highest Rating Categories by any two of Fitch, Moody's and S&P.

"*Fiscal Year*" means the twelve month period established by the Board or provided by law from time to time as its fiscal year, and which, as of the date of adoption of the Resolution, is the 12-month period commencing on July 1 of any year and ending on June 30 of the following year.

"*Fitch*" means Fitch Inc., its successors and their assigns and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized rating agency, if any, designated by the Board.

"*Fixed Rate Bonds*" means any Bonds issued bearing interest at a fixed rate per annum from their dated date or such other date to their maturity date.

"*Improvements*" means the acquisition, purchase, construction, reconstruction, improvement, betterment or extension of the Water System

"*Interest Commencement Date*" means, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof specified in the Series Resolution or a Series Certificate providing for the issuance of such Bond, after which interest accruing on such Bond shall be payable on the interest payment dates established in such Series Resolution or Series Certificate.

"*Interest Rate Exchange Agreement*" means an agreement entered into by the Board relating to Bonds of one or more Series which provides that during the term of such agreement the Board is to pay to the Counterparty an amount based on the interest accruing at a fixed or variable rate per annum on a notional amount and that the Counterparty is to pay to the Board either (i) an amount based on the interest accruing on such notional amount at a fixed, capped or variable rate per annum, in each case computed according to a formula set forth in such agreement, or that one shall pay to the other any net amount due under such agreement, or (ii) an amount based on the amount by which the rate at which such Bonds bear interest exceeds a rate stated in such agreement.

"*Investment Agreement*" means an agreement for the investment of moneys with a Qualified Financial Institution.

"*Investment Securities*" means any of the following, if and to the extent that the same are legal for the investment of funds of the Board:

(i) Government Obligations;

(ii) Investment Agreements;

(iii) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMAs"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMA's"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit bonds of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities.

(iv) direct obligations of any state or territory of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, in one of the two highest Rating Categories by any two of Fitch, Moody's and S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, in one of the two highest Rating Categories by any two of Fitch, Moody's and S&P;

(v) commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, any two of the following: "F-1" by Fitch, "P-1" by Moody's and "A-1" by S&P;

(vi) Federal funds, unsecured certificates of deposit, time deposits or bankers acceptances (in each case having maturities of not more than 365 days) of any domestic bank including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that full and timely payment of such deposit or similar obligation is enforceable against the principal office or any branch of such bank, which is rated, at the time of purchase, any two of the following: "F-1" by Fitch, "P-1" by Moody's and "A-1" by S&P;

(vii) deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than $3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC");

(viii) investments in money-market funds rated in the highest Rating Category of any two of Fitch, Moody's and S&P;

(ix) repurchase agreements collateralized by Government Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated in one of the two highest Rating Categories by any two of Fitch, Moody's and S&P, provided:

(a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and

(b) the securities are held free and clear of any lien by the Depositary or an independent third party acting solely as agent ("Agent") for the Depositary, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million, and the Depositary shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Depositary; and

(c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 *et seq*. or 31 C.F.R. 350.0 *et seq*. in such securities is created for the benefit of the Depositary; and

(d) the repurchase agreement has a term of 3 years or less, and the Depositary or the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and

(e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 100%.

(x) investments in any mutual fund whose portfolio is limited to Government Obligations and the investments described in clause (ii) of this definition of Investment Securities; and

(xi) student loan resource securities including student loan auction rate securities, student loan asset-backed notes, student loan program revenue notes and bonds, and securities issued pursuant to Rule 144A of the Securities Act of 1933, including any private placement issues, issued with either bond insurance or over collateralization guaranteed by the United States Department of Education, provided all insurers are rated in the highest Rating Category by Fitch, Moody's or S&P.

"LIBOR" means the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

"Moody's" means Moody's Investors Service, Inc., its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized rating agency, if any, designated by the Board.

"Net Revenue Requirement" means with respect to any Fiscal Year or any other period, an amount equal to the greater of: (i) the sum of (a) the Aggregate Debt Service in such Fiscal Year or such period and (b) the Required Deposits for such Fiscal Year or such period; or (ii) 1.20 times the maximum Aggregate Debt Service in such Fiscal Year or such period plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the end of Fiscal Year or such period.

"Net Revenues" means, with respect to any period, the Revenues during such period less amounts required to pay Operation and Maintenance Expenses.

"Operating Fund" means the Board of Water Supply Operating Fund previously established in the City and County Treasury, as described in the Resolution.

"Operation and Maintenance Expenses" means the costs and expenses of operating and maintaining the Water System, including, without limiting the generality of the foregoing, (i) all expenses includable in the operation and maintenance expense accounts of the Board relating to the Water System according to generally accepted accounting principles, exclusive of depreciation and amortization of property values or losses, (ii) to the extent not included in the preceding clause (i) or paid from Bond proceeds or otherwise, the Board's share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others, and (iii) any Rebate Amounts.

"Opinion Of Counsel" means with respect to the Board a written opinion of counsel selected by the City and County or the Board, which, with respect to federal income tax law and securities law relating to obligations issued by state and local governmental units, is Bond Counsel. Any Opinion of Counsel may be based (insofar as it relates to factual matters or information which is in the possession of the Board) upon a Written Certificate of the Board unless such counsel knows, or in the exercise of reasonable care should have known, that such Written Certificate is erroneous.

"Outstanding" or *"outstanding"* when used with reference to Bonds means, as of any date, Bonds theretofore or thereupon issued or authorized pursuant to the Resolution, except: (a) any Bonds canceled by a Paying Agent or paid at or prior to such date; (b) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the Resolution; (c) Bonds deemed to be no longer outstanding as provided in the Resolution; and (d) Option Bonds tendered or deemed tendered in accordance with the provisions of the Series Resolution or Series Certificate providing for the issuance of such Bonds which have been purchased by or on

behalf of the Board and in lieu of or substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution, provided that interest thereon shall have been paid through such tender or purchase date thereof and the purchase price thereof shall have been paid or amounts are available for such payment as provided therein and in such Series Resolution or Series Certificate.

"Parity Support Facility Reimbursement Obligation" means the obligation of the Board described in the Resolution to directly reimburse the Support Facility Provider of any Support Facility for amounts paid by such Support Facility Provider under such Support Facility or a Counterparty under an Interest Rate Exchange Agreement for amounts paid thereunder, on a parity with the obligation of the Board to pay the Bonds, whether or not such obligation to reimburse is evidenced by a promissory note or other similar instrument.

"Paying Agent" means, as to Bonds of any particular Series, the Director of Budget and Fiscal Services or the bank or trust company designated for the payment of the principal and Redemption Price (if any) of, and interest on, the Bonds of such Series in the Series Resolution or Series Certificate providing for the issuance of such Series.

"*Rating Agency*" means any nationally recognized credit rating agency which has rated all or any Series of Bonds at the request of the Director of Budget and Fiscal Services, and may include Fitch, Moody's and S&P.

"*Rating Category*" means a rating, such as AA or A, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation.

"*Rebate Amount*" means any amount required by Section 148(f) of the Code to be paid to the United States Treasury Department in respect of Tax-exempt Bonds.

"Record Date" means, with respect to any Series of Bonds, (i) with respect to the payment of interest, the 15th day (whether or not a Business Day) of the month preceding an interest payment date; (ii) with respect to notice of redemption, the 45th day (whether or not a Business Day) preceding the date of redemption; or (iii) such other day as may be provided in the Series Resolution or Series Certificate providing for the issuance of such Series.

"Refunded Municipal Obligations" means Exempt Obligations which are rated in the highest Rating Category by any two of Fitch, Moody's and S&P and provision for the payment of the principal of and interest on which shall have been made by an irrevocable deposit with a trustee or escrow agent of Governmental Obligations, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as custodian, the maturing principal of and interest on which Government Obligations shall be sufficient to pay, when due, the principal of and interest on such Exempt Obligations.

"Reimbursable Obligations" means reimbursable general obligation bonds issued and delivered or to be hereafter issued and delivered by the City and County to finance certain costs related to the Water System, the debt service on which the Board is required by State law to reimburse the City and County's General Fund.

"Reimbursable Obligation Requirement" means with respect to any period of time, the amount required to be credited to the Reimbursable Obligation Fund pursuant to the ordinances and resolutions of the City Council providing for the issuance and delivery of Reimbursable Obligations.

"Required Deposits" means, for any period, the amounts, if any, required (i) to be paid into the Common Reserve Account, each Series Reserve Account, the Subordinate Obligation Fund and the Reimbursable Obligation Fund; and (ii) to pay Support Facility Reimbursement Obligations.

"Resolution" means the First Bond Resolution adopted by the Board on April 26, 2001, as from time to time amended or supplemented by one or more Supplemental Resolutions.

"Revenue Bond Index" means the 30-year Revenue Bond Index of *The Bond Buyer*, a publication in New York, New York, or any successor publication maintaining such Index or in the event *The Bond Buyer* or any

successor publication does not maintain such Index, an equivalent index with the same or similar components as the Revenue Bond Index.

"*Revenues*" means the moneys collected, including any moneys collected from the City and County or any department thereof, except the Board, derived by the Board from the rates, rentals, fees and charges prescribed for the use and services of, and the facilities and commodities furnished by, the Water System, including, without limiting the generality of the foregoing, (i) all income, receipts, profits, and other moneys derived from the sale of water and from the furnishing or supplying of the services, facilities and commodities through the Water System; (ii) all income from investments of moneys held under the Resolution including investment income on the Improvement Fund but not including any earnings on the Rebate Account, the Subordinate Obligation Fund and the Reimbursable Obligation Fund; (iii) all payments made by Counterparties pursuant to Interest Rate Exchange Agreements; and (iv) moneys and Investment Securities transferred from the Rate Stabilization Account to the Operating Fund within 90 days following the end of a Fiscal Year. "Revenues" shall not include, (i) deposits subject to refund until such deposits have become the property of the Board; (ii) contributions in-aid-of construction and assessment, impact and other similar fees imposed and collected by the Board which are targeted to pay the Costs of specific Improvements; (iii) income, fees, charges, receipts, profits or other moneys derived by the Board from its ownership or operation of any separate utility system; or (iv) any gifts, grants, donations or other moneys received by the Board from any state or federal agency or other person if such gifts, grants, donations or other moneys are the subject of any limitation or reservation: (a) imposed by the donor or grantor; (b) imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds; (v) amounts retained in the Operating Fund for working capital and operating reserves pursuant to the Resolution; or (vi) moneys and Investment Securities transferred from the Operating Fund to the Rate Stabilization Account within 90 days following the end of a Fiscal Year.

"*S&P*" means Standard & Poor's, a division of The McGraw-Hill Companies, its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized rating agency designated by the Board.

"*Serial Bonds*" means Bonds which mature serially and which are not Term Bonds.

"*Series,*" "*Series of Bonds*" or "*Bonds of a Series*" means all Bonds designated as being of the same series issued and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter delivered in lieu thereof or in substitution therefor pursuant to the Resolution.

"*Series Certificate*" means a certificate of an Authorized Officer of the Board fixing the terms, conditions and other details of Bonds in accordance with the delegation of power to do so under the Resolution or under a Series Resolution.

"*Series Resolution*" means a resolution of the Board authorizing the issuance of a Series of Bonds adopted by the Board pursuant to the Resolution.

"*Sinking Fund Installment*" means an amount so designated which is established pursuant to the Resolution. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited pursuant to the Resolution toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

"*Subordinate Obligations*" means any bonds, notes or other evidences of indebtedness of the Board payable from Net Revenues, other than the Bonds and Reimbursable Obligations, issued in accordance with and complying with the provisions of the Resolution.

"*Subordinate Obligation Requirement*" means with respect to any period of time, the amount required to be deposited in the Subordinate Obligation Fund pursuant to the resolution, indenture or other instruments of the Board adopted by or entered into by the Board in accordance with the Resolution and providing for all payments with respect to Subordinate Obligations.

"*Supplemental Resolution*" means any resolution adopted by the Board and becoming effective pursuant to and in compliance with the provisions of the Resolution, which amends or supplements the provisions of the Resolution, any Series Resolution or any other Supplemental Resolution.

"*Support Facility*" means an irrevocable letter of credit, surety bond, loan agreement, standby purchase agreement or other agreement, facility or insurance or guaranty arrangement issued or extended by any Support Facility Provider, pursuant to which the Board is entitled to obtain moneys to pay the principal or Redemption Price of Bonds due in accordance with their terms or tendered for purchase or redemption, plus accrued interest thereon to the date of payment, purchase or redemption thereof in accordance with the Resolution and with the Series Resolution authorizing such Bonds or a Series Certificate relating to such Bonds, whether or not the Board is in default under the Resolution.

"*Support Facility Provider*" means a bank, a trust company, a national banking association, an organization subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Board or a Counterparty.

"*Support Facility Reimbursement Obligation*" means the obligation of the Board to reimburse a Support Facility Provider for amounts paid under its Support Facility or a Counterparty for amounts paid under an Interest Rate Exchange Agreement, whether or not such obligation to reimburse is evidenced by a promissory note or other similar instrument.

"*Term Bonds*" means Bonds the retirement or the redemption of which shall be provided for from moneys credited to the Payment Account pursuant to the Resolution.

"*Variable Rate Bonds*" means any Bonds issued bearing interest at a rate per annum subject to adjustment from time to time based on the terms thereof, based upon an index, or otherwise calculated in a manner which precludes the actual rate for the entire term of such Bonds from being ascertainable in advance (*i.e.*, a "variable rate"); provided, however, that a Bond the interest rate on which shall have been fixed for the remainder of the term thereof shall constitute a Fixed Rate Bond and no longer a Variable Rate Bond; provided, further, however, that in the case where a Bond bears a variable rate and is dated and has the same maturity as a Bond bearing a rate that is a constant rate minus the rate borne by the first bond (*i.e.*, an "inverse variable rate"), both Bonds shall constitute Fixed Rate Bonds and no longer Variable Rate Bonds.

"*Water System*" means all plants and properties, both real and personal and tangible and intangible, now or hereafter existing, of the Board, used for or pertaining to the supplying, purification, filtration, transmission and distribution of water or incidental or necessary to the preservation of the Board's wells and water supply and the integrity thereof. Without limiting the generality of the foregoing, said term shall include: (1) the existing plants and properties comprising the Water System of the Board, as of the date of adoption of the Resolution; and (2) all Improvements hereafter constructed or otherwise acquired, including, without limitation, water properties acquired by annexations or water properties acquired through the Board's participation in any regional water system, purchase of water or water rights, conservation or reclamation projects and appliances.

Pledge Made in the Resolution

The Bonds are limited special obligations of the Board payable solely from and secured by the funds pledged therefor by the Board pursuant to the Resolution. The Board has pledged as security for the payment of the principal and Redemption Price (if any) of, and interest on, the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution: (i) the proceeds of sale of the Bonds pending application thereof in accordance with the provisions of the Resolution or of a Series Resolution or a Series Certificate; (ii) the Net Revenues; (iii) all Funds and Accounts held under the Resolution other than the Rebate

Account, the Subordinate Obligation Fund and the Reimbursable Obligation Fund; (iv) with respect to any Series of Bonds not entitled to the benefit of a Series Reserve Account, such Series Reserve Account; and (v) with respect to any Series of Bonds not entitled to the benefit of the Common Reserve Account, the Common Reserve Account, including the investments, if any, in such pledged Funds and Accounts; and the Bondholders shall have a lien on, and a security interest in, such proceeds, Net Revenues and Funds and Accounts for such purpose and subject to such provisions of the Resolution. Such lien and security interest for the payment of Bonds are prior and superior to any lien and security interest for the payment of Subordinate Obligations and Reimbursable Obligations.

The Resolution provides that each of the obligations, duties, limitations and restraints imposed upon the Board by the Resolution shall be deemed to be a covenant between the Board and every holder of the Bonds, and the Resolution and every provision and covenant thereof shall be deemed to be and shall constitute a continuing contract and agreement between the Board and the holders from time to time of the Bonds issued thereunder, to secure the full and final payment of the principal and Redemption Price of and interest on all Bonds which may from time to time be issued, executed, and delivered under the Resolution. The covenants and agreements set forth in the Resolution to be performed by the Board shall be for the equal and proportionate benefit, security and protection of all holders of the Bonds without preference, priority or distinction as to payment or security or otherwise of any of the Bonds over any of the others for any reason or cause whatsoever except as expressly provided in the Resolution, in a Series Resolution, a Series Certificate or a Supplemental Resolution or in the Bonds.

Additional Bonds and Refunding Bonds

Basic Test. One or more Series of Bonds may be issued on a parity with other Bonds at any time and from time to time for any lawful use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Costs of Improvements, but only upon compliance as to each such Series with the provisions set forth in the Resolution, including, among other things, delivery to the Director of Budget and Fiscal Services of certain documents or moneys or securities, including:

(1) A certificate satisfying the "Additional Bonds Requirement," defined as either (A) a Written Certificate of the Board based: (i) on audited figures or (ii) to the extent audited figures are not available, on figures taken by an independent certified public accountant from the Board's books and records, showing that the Net Revenues, after making certain adjustments as described below, for: (a) the most recent Fiscal Year, or (b) any consecutive 12-month period out of 24 months immediately preceding the month in which such Bonds are issued were not less than 1.20 times the maximum Aggregate Debt Service on the Outstanding Bonds and the Series of Bonds then proposed to be issued in any Fiscal Year, plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of the Written Certificate; or (B) a Written Certificate of the Board or certificate of the Consulting Engineer that the Net Revenues to be derived in each of the five (5) Fiscal Years following the earlier of: (i) the end of the period during which interest is capitalized or, if no interest is to be capitalized, the Fiscal Year in which the proposed Series of Bonds are issued, and (ii) the date on which substantially all Improvements to be financed with the proceeds of the proposed Series of Bonds are expected to commence operations, or, if the proceeds of such Series of Bonds will not be used to fund the Costs of Improvements, the Fiscal Year in which the proposed Series of Bonds are issued, are estimated to be not less than 1.20 times the maximum Aggregate Debt Service on all Bonds then Outstanding and on the proposed Series of Bonds in any such Fiscal Year, plus 1.00 times the aggregate Support Facility Reimbursement Obligations outstanding as of the date of such Written Certificate of the Board or certificate of the Consulting Engineer, as the case may be.

(2) A Written Certificate of the Board stating the amount required to be in the Common Reserve Account after issuance of the Bonds then to be issued, and that after deposit in the Common Reserve Account of the amount, if any, to be deposited therein in connection with the issuance of such Bonds, the amounts on deposit in the Common Reserve Account will not be less than the Common Reserve Account Requirement.

(3) A Written Certificate of the Board stating the amount required to be in the Series Reserve Account, if any, created to provide additional security for the Bonds then to be issued following issuance of such Bonds, and that after deposit in such Series Reserve Account of the amount to be deposited therein in

connection with the issuance of such Bonds, the amounts on deposit in such Series Reserve Account will not be less than the Series Reserve Account Requirement for such Series Reserve Account.

Certain Adjustments. The Resolution permits and requires certain adjustments to be made in determining whether the Basic Test described above for the issuance of Bonds other than Refunding Bonds are met.

(1) In determining Debt Service on Variable Rate Bonds then Outstanding and Variable Rate Bonds then proposed to be issued for purposes of the *Basic Test* described above, the interest rate is to be calculated as: (i) if any Variable Rate Bonds are then Outstanding and have been Outstanding for at least 24 months, the highest average interest rate borne by such Variable Rate Bonds over the preceding 12-month period, or (ii) if no such Variable Rate Bonds are then Outstanding, (a) for the proposed Variable Rate Bonds that are Tax-exempt Bonds, the average interest rate of the Revenue Bond Index over the preceding 12-month period at the time of calculation, and (b) for the proposed Variable Rate Bonds that are not Tax-exempt Bonds, the average interest rate of LIBOR over the preceding 12-month period at the time of calculation.

(2) Bond Anticipation Notes then Outstanding are to be treated as Bonds. In determining Debt Service on such Bond Anticipation Notes, such Bond Anticipation Notes are assumed to mature in 30 years resulting in level annual debt service and bear interest equal to the Revenue Bond Index at the time of calculation.

(3) Subordinate Obligations and Reimbursable Obligations originally issued as Bond Anticipation Notes with a maturity of five (5) years or less are assumed to mature in 30 years resulting in level annual debt service and bear interest equal to the Revenue Bond Index at the time of calculation.

(4) In preparing any certificate required by the *Basic Test* described above, the Authorized Officer or Consulting Engineer, as applicable, may make adjustments to the Net Revenues as follows:

a. If any changes have been made in the schedule of rates and charges imposed by the Board on sales of water and services furnished by the Water System which are in effect at the time of adoption of the Series Resolution providing for the issuance of the Bonds then being issued and were placed into effect subsequent to the start of the Fiscal Year or the 12-month period selected pursuant to clause (1) under the *Basic Test* described above, the Authorized Officer may, if such changes result in increases in such rates and charges, and shall, if such changes result in reductions in such rates and charges, adjust the Net Revenues for such period to reflect any change in such Net Revenues which would have occurred if the schedule of rates and charges in effect at the time of the adoption of the Series Resolution authorizing the issuance of such Bonds had been in effect during the portion of such period in which such schedule was not in effect.

b. If customers are being served by the Board at the time of adoption of the Series Resolution authorizing the issuance of the Bonds then being issued and who were added to the Water System subsequent to the start of the Fiscal Year or the 12-month period selected pursuant to clause (1) under the *Basic Test* described above, the Authorized Officer may adjust the Net Revenues for such period to reflect any change in such Net Revenues which would have occurred if the additional customers had been served during the portion of the period in which such customers were not served.

c. If residential, commercial, industrial or institutional customers which are in existence are not then served by the Water System at the time of adoption of the Series Resolution authorizing the issuance of the Bonds then being issued, but are then expected to be served following completion of the Improvements during the five (5) Fiscal Years covered by such certificate, the Costs of which are financed from the proceeds of such Bonds, the Authorized Officer or Consulting Engineer, as applicable, shall estimate the effect which such new customers would have had on the Net Revenues for the period selected pursuant to clause (1) under the *Basic Test* described above, if such new customers had been served during the entire period and shall adjust the Net Revenues for such period to give effect to such new customers. Any such estimate shall be based upon the operating experience and records of the Board with respect to the Water System and upon any available financial and quarterly statistics deemed pertinent by the Authorized Officer or Consulting Engineer, as applicable.

d. If any long-term, guaranteed contracts with customers of the Water System are in effect at the time of adoption of the Series Resolution authorizing the issuance of the Bonds then being issued and which were entered into subsequent to the start of the Fiscal Year or 12-month period selected pursuant to clause (1) under the *Basic Test* described above, the Authorized Officer may adjust the Net Revenues for such period to reflect any change in such Net Revenues which would have occurred if such contracts had been in effect for the entire period.

e. In providing the certificate required pursuant to clause (1) under the *Basic Test* described above, the Authorized Officer or Consulting Engineer, as applicable, shall deem the Operation and Maintenance Expenses for the Water System for the first Fiscal Year of the 5-year period to be equal to such Operation and Maintenance Expenses for the Fiscal Year immediately preceding the Fiscal Year in which the proposed Series of Bonds is to be delivered, and thereafter the Authorized Officer or Consulting Engineer, as applicable, shall adjust, if deemed necessary, for any increased Operation and Maintenance Expenses which are estimated to occur during any subsequent Fiscal Year during the 5-year period and are, in the judgment of the Authorized Officer or Consulting Engineer, as applicable, essential to maintaining and operating the Water System.

f. In rendering its certificate, the Authorized Officer or Consulting Engineer, as applicable, may rely upon estimates from other sources which such Authorized Officer or Consulting Engineer considers reliable, making such adjustments and provisions for contingencies based on similar projects and other considerations as deemed appropriate by the such Authorized Officer or Consulting Engineer.

The Board may issue a Series of Refunding Bonds at any time for the purpose of refunding (including by purchase) all or any portion of Bonds Outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the Refunding Bonds and of effecting such refunding if the conditions set forth in the Resolution are complied with, including all of the conditions of the *Basic Test* described above, except that the Additional Bonds Requirement need not be satisfied if the maximum annual Debt Service in any Fiscal Year on the Refunding Bonds proposed to be issued does not exceed maximum annual Debt Service in any Fiscal Year on the refunded Bonds by more than 10%. All adjustments described above in *Certain Adjustments* are applicable to the issuance of Refunding Bonds.

The Board may also issue a Series of Refunding Bonds at any time for the purpose of refunding (including by purchase) all or any portion of outstanding Subordinate Obligations or Reimbursable Obligations, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the Refunding Bonds and of effecting such refunding if the conditions set forth in the Resolution are complied with, including all of the conditions of the *Basic Test* described above.

Bond Anticipation Notes

Bond Anticipation Notes may be issued if the Board has by a Series Resolution duly authorized the issuance of Bonds under the Resolution. No Bond Anticipation Notes may be issued unless the Board has caused to be filed with the Director of Budget and Fiscal Services on or prior to the date of issuance of such Bond Anticipation Notes, a certificate of the Board to the effect that, based on market conditions expected to be prevailing at the time of issuance of the Series of Bonds in anticipation of which such Bond Anticipation Notes are issued and on other reasonable assumptions set forth in such certificate, the provisions of the Resolution for the issuance of Bonds other than Refunding Bonds are expected to be complied with at the time of issuance of such Series of Bonds. The maximum maturity of such Bond Anticipation Notes, including the renewals thereof, must not exceed five (5) years from the date of the original Bond Anticipation Note. The principal of such Bond Anticipation Notes may be paid from the proceeds of such notes (or any renewal thereof) or from the proceeds of the Bonds in anticipation of which such notes were issued. The interest on such notes may be secured by a lien on and pledge of, and be paid from, the Net Revenues on a parity with the lien on and pledge of the Net Revenues created in the Resolution for the payment and security of the Bonds. The principal of such Bond Anticipation Notes shall be secured by a lien on and pledge of the proceeds of the Bonds in anticipation of which such notes were issued and any such pledge will have priority over any other pledge of such proceeds created by the Resolution. Bond Anticipation Notes are treated as Bonds for all purposes of the Resolution, including the Additional Bonds tests, and are payable from the Debt Service Fund except to the extent that the principal of any such Bond Anticipation Note is paid from the proceeds of other Bond Anticipation Notes or from proceeds of Bonds.

Subordinate Obligations

The Board may issue Subordinate Obligations which are payable out of, and which may be secured by a pledge of, such amounts in the Subordinate Obligation Fund as may from time to time be available for the purpose of payment. The Board may, by resolution, provide for various priorities in the liens and pledges securing Subordinate Obligations, and nothing in the Resolution shall be construed so as to require that the payment of, or pledges securing, Subordinate Obligations be on a parity *inter se.*

The Board may also issue Subordinate Obligations: (i) to refund any Subordinate Obligations issued as provided in the Resolution; (ii) to refund Outstanding Bonds; or (iii) to refund any Reimbursable Obligations. Such Subordinate Obligations issued for refunding purposes may be payable out of, and may be secured by a pledge of, such amounts in the Subordinate Obligation Fund or General Fund as may from time to time be available therefor.

The Resolution requires that the resolution, indenture or other instrument securing or evidencing each issue of Subordinate Obligations must contain provisions (which shall be binding on all holders of such Subordinate Obligations) not more favorable to the holders of such Subordinate Obligations than those provided in the Resolution to holders of Bonds with respect to payment, claim on Revenues and other matters.

Reimbursable Obligations

The obligation for the payment of Reimbursable Obligations shall be: (i) after and inferior to the lien and security interest for the payment of Bonds and those Subordinate Obligations which are payable from the Subordinate Obligation Fund; and (ii) prior and superior to the lien and security interest for the payment of those Subordinate Obligations which are payable from the General Fund. Reimbursable Obligations are payable from the Reimbursable Obligation Fund.

Support Facilities and Interest Rate Exchange Agreements

In connection with the issuance of any Series of Bonds and to the extent permitted by law, the Board may obtain or cause to be obtained from one or more Support Facility Providers or one or more Support Facilities providing for payment of all or a portion of the purchase price or principal, premium, if any, or interest due or to become due on specified Bonds of such Series, or providing for the purchase of such Bonds or a portion thereof by the Support Facility Provider, or providing, in whole or in part, for the funding of the Common Reserve Account or a Series Reserve Account pursuant to the Resolution. In connection with the issuance of any Series of Bonds or to improve the management of its assets and liabilities, to the extent permitted by law, the Board may enter into with one or more Counterparties one or more Interest Rate Exchange Agreements; provided that no such Interest Rate Exchange Agreement shall adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-exempt Bonds of any Series.

In connection therewith, the Board may enter into agreements with the Support Facility Provider or Counterparties to provide for, among other things: (i) the payment of fees and expenses to such Support Facility Provider or Counterparties; (ii) the terms and conditions of such Support Facility or Interest Rate Exchange Agreement and the Series of Bonds affected thereby; and (iii) the security, if any, to be provided to such Support Facility Provider or Counterparties. The Board may secure the Support Facility or Interest Rate Exchange Agreement by an agreement providing for the purchase of the Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified in the applicable Series Resolution or Series Certificate. Debt Service with respect to any Bonds so secured shall be calculated for purposes of the definition of Common Reserve Account Requirement by using the Assumed Long-Term Fixed Rate.

The Board may also agree in any agreement with such Support Facility Provider or the Counterparty under an Interest Rate Exchange Agreement to reimburse directly such Support Facility Provider or Counterparty for any amounts paid under the terms of such Support Facility or Interest Rate Exchange Agreement, together with interest thereon (the "Support Facility Reimbursement Obligation"); provided, however, that no Support Facility Reimbursement Obligation shall be created, for purposes of the Resolution, until amounts are paid under such Support Facility or Interest Rate Exchange Agreement, as the case may be. Any such Support Facility Reimbursement Obligation may be secured by a lien on and pledge of the Net Revenues on a parity with the lien on and pledge of the Net Revenues created by the Resolution with respect to the Bonds (a "Parity Support Facility Reimbursement Obligation"). Any such Parity Support Facility Reimbursement Obligation is to be deemed to be a part of the Series of Bonds relating to the Support Facility which gave rise to such Parity Support Facility Reimbursement Obligation.

Any Support Facility deposited in the Common Reserve Account or the long-term debt of the issuer of any Support Facility deposited in the Common Reserve Account must, in each case, be rated in the highest rating category of each of two Rating Agencies, including A.M. Best & Company if rated by it, or their respective successors. In the event any Support Facility deposited in the Common Reserve Account or the long-term debt of the issuer of any Support Facility deposited in the Common Reserve Account falls below the highest rating category of any Rating Agency, and A.M. Best & Company if rated by it,, the Board shall, within 120 days, obtain a new Support Facility which, or which the long-term debt of the issuer of such new Support Facility, is rated not less than the highest rating category of each of two such rating agencies; provided, however, that the if the new Support Facility is not obtained within 120 days, the Board must deposit in the Common Reserve Account, Net Revenues in the amount provided in the Resolution. If a disbursement is made pursuant to an Support Facility deposited in the Common Reserve Account, the Board must either: (i) reinstate the full amount of such Support Facility; (ii) deposit Net Revenues in the Common Reserve Account in the amount of the disbursement made under such Support Facility, or (iii) take a combination of actions set forth in clauses (i) and (ii), such that the amount in the Common Reserve Account will equal the Common Reserve Account Requirement within a period of time not longer than would be required to restore the Common Reserve Account by application of moneys in the Operating Fund.

The Board shall obtain and maintain in effect one or more Support Facilities for Option Bonds. The Board shall obtain a replacement Support Facility to replace any Support Facility for Option Bonds that is expiring, not renewed or terminated. Procedures for such replacement, maintenance and notices to Bondholders, rating agencies or other persons shall be provided in the Series Resolution or Series Certificate providing for the issuance of such Bonds.

Funds and Accounts

The Operating Fund has heretofore been created and is held by the Board in the Treasury of the City and County. In addition, the following funds and accounts are established by the Resolution, also to be held by the Board in the Treasury of the City and County:

Rebate Account and Rate Stabilization Account, in the Operating Fund;
Debt Service Fund, which contains the Payment Account, the Common Reserve Account and any Series Reserve Account;
Subordinate Obligation Fund;
Reimbursable Obligation Fund;
Renewal and Replacement Fund;
General Fund; and
Improvement Fund and any Series Improvement Account and any Series Capitalized Interest Account.

Operating Fund

Revenues are to be collected by the Board and are to be deposited into the Operating Fund. From the amounts deposited in the Operating Fund, the Board will pay the current Operation and Maintenance Expenses of the Board, including any transfer to the Rebate Account of such amount as is necessary to pay the Rebate Amount or to set aside a reserve for such payment, and shall make the transfers to other Funds and Accounts as prescribed in the Resolution. In addition, there shall be deposited in the Operating Fund all other amounts required by the City Charter and the Resolution to be so deposited.

In each month, the Board shall, after paying the Operating and Maintenance Expenses for such month and setting aside an amount sufficient to pay the Operating and Maintenance Expenses expected to be incurred for the balance of such month, retain, apply or transfer on the 5th day before the end of each month, unless otherwise provided in the Resolution, a sufficient amount of moneys in the Operating Fund in the following order of priority:

First, to the Payment Account, if and to the extent required so that the balance in the Payment Account shall equal the Accrued Debt Service for all Bonds Outstanding on said date and the interest accrued on all Bond Anticipation Notes Outstanding on said date;

Second, (a) to the Common Reserve Account, if and to the extent required either (i) an amount so that the balance in the Common Reserve Account shall equal the Common Reserve Account Requirement on said date, or (ii) an amount such that if the same amount were deposited in each month, the amount of any deficiency in the Common Reserve Account will be eliminated at the end of the 6th month following the first credit; and (b) to each Series Reserve Account, if and to the extent required either (i) an amount such that the balance in each Series Reserve Account will equal the Series Reserve Account Requirement for each Series Reserve Account on said date, or (ii) an amount such that if the same amount were deposited in each month the amount of any deficiency in each Separate Series Common Reserve Account will be eliminated at the end of the 6th month following the first credit; provided, however, that such transfers will be pro rata, based on the proportion of the Common Reserve Account Requirement and each Series Reserve Account Requirement to the sum of the Common Reserve Account Requirement and all Series Reserve Account Requirements;

Third, in the Operating Fund, a reasonable and necessary amount for working capital and operating reserves;

Fourth, to the Subordinate Obligation Fund, an amount equal to all Subordinate Obligation Requirements, if any, theretofore accrued and unpaid and not met from any other source and to accrue and become payable during the succeeding calendar month and not met from any other source;

Fifth, to the Reimbursable Obligation Fund an amount equal to all Reimbursable Obligation Requirements, if any, payable on such day and not met from any other source;

Sixth, to the Renewal and Replacement Fund, an amount equal to 1/12th of the amount provided in the Annual Budget of the Board to be credited to such Fund during such Fiscal Year, provided that if any such monthly allocation to the Renewal and Replacement Fund shall be less than the required amount, the amount of the next succeeding monthly payment shall be increased by the amount of such deficiency;

Seventh, to the Rate Stabilization Account, such amount as will be provided in the Annual Budget to be transferred to the Rate Stabilization Account in such month or so much thereof as will be available; provided, however, that if any such monthly allocation to the Rate Stabilization Account will be less than the required amount, the next succeeding transfer will be increased by the amount of such deficiency;

Eighth, to pay Costs of Improvements; and

Ninth, to the General Fund, such amount as shall be set forth in a Written Certificate of the Board.

Upon determining the Rebate Amount with respect to each Series of Tax-exempt Bonds, the Board is required to transfer from any of the Funds and Accounts pledged or held under the Resolution, other than the Debt Service Fund, the Subordinate Obligation Fund and the Reimbursable Obligation Fund, and credit to the Rebate Account, all or a portion of the Rebate Amount with respect to such Series of Bonds, and pay each such Rebate Amount out of the Rebate Account to the Department of the Treasury of the United States of America.

Moneys and Investment Securities credited to the Rate Stabilization Account are to be transferred to the Operating Fund at the times and in the amounts be provided in the Annual Budget for the purposes of stabilizing the rates and charges of the Water System.

The Resolution permits the Board, if provided in a Series Resolution, to pay directly out of the Operating Fund reimbursements to providers of Support Facilities which have been drawn upon in the same priority and order as payments from the Operating Fund to the Payment Account, Common Reserve Account, any applicable Series Reserve Account or other Funds and Accounts as if such payments were part of such Funds and Accounts.

Purposes of the Various Funds

Debt Service Fund - Payment Account. The Board will pay out of the Payment Account to each Paying Agent: (i) on or before each interest payment date for any of the Bonds or Bond Anticipation Notes the amount required for the interest payable on such date; (ii) on or before each principal payment date, an amount equal to the principal, if any, due on such date by reason of maturity or by reason of the payment of any Sinking Fund Installment; and (iii) on or before any redemption date for the Bonds, the amount required for the payment of the Redemption Price and interest on the Bonds then to be redeemed. Such amounts will be applied by each Paying Agent on and after the due dates thereof. The Board will also pay out of the Payment Account the accrued interest included in the purchase price of Bonds purchased for retirement.

Amounts accumulated in the Payment Account by reason of the payment of any Sinking Fund Installment may, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, be applied by the Board to: (i) the purchase of Bonds of the maturity for which such Sinking Fund Installment was established, or (ii) the redemption of such Bonds at the applicable sinking fund Redemption Price, if then redeemable by their terms. All such purchases of Bonds will: (i) be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accreted interest; (ii) be made as arranged by the Board in such manner and from such sellers or brokers at such prices as the Board shall determine; and (iii) be made to insure that delivery of the Bonds so purchased shall not occur later than the 60th day next preceding the redemption date to which the Sinking Fund Installment is to be applied. The applicable sinking fund Redemption Price of any Bonds (or principal amount of maturing Bonds) so purchased or redeemed will be deemed to constitute part of the Payment Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 60th day preceding the due date of any such Sinking Fund Installment, the Board will proceed to call for redemption on such due date Bonds of the maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as is necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Bonds purchased or redeemed pursuant to the Resolution which the Board has applied as a credit against such Sinking Fund Installment. The Board will pay out of the Payment Account to the appropriate Paying Agents, on or before the redemption date, the amount required for the redemption of the Bonds so called for redemption, and such amount will be applied by such Paying Agents to such redemption.

The amount, if any, credited to the Payment Account from a Series Capitalized Interest Account will be applied to the payment of interest on the Bonds as the same becomes due and payable as provided in the Resolution.

Upon any purchase or redemption pursuant to the Resolution of Bonds of any Series and maturity for which Sinking Fund Installments have been established: (i) if the principal amount of the Bonds so purchased is less than or equal to the next succeeding Sinking Fund Installment for such Series there will be credited to the next such Sinking Fund Installment an amount equal to the principal amount of the Bonds of such Series so purchased; and (ii) if the principal amount of the Bonds so purchased is greater than the next succeeding Sinking Fund Installment, there will be credited toward each such Sinking Fund Installment thereafter to become due an amount bearing the same ratio to such Sinking Fund Installment as the total principal amount of such Bonds so purchased or redeemed bears to the total principal amount of all such Sinking Fund Installments to be so credited or, at the option of the Board, an amount equal to the next succeeding Sinking Fund Installment. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) will constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

Debt Service Fund - Common Reserve Account. If on the day preceding any principal or interest payment date the amount in the Payment Account is less than Accrued Debt Service for all Bonds then Outstanding which are entitled to the benefit of the Common Reserve Account, the Board will pay out of the Common Reserve Account to each Paying Agent for such Bonds the amount necessary to satisfy the deficiency for payment to the holders of such Bonds. Amounts so applied will be derived first, from cash or Investments Securities on credit to the Common Reserve Account and second, from draws or demands on Support Facilities held in the Common Reserve Account upon the terms and conditions set forth in any such Support Facility.

Whenever the amounts on deposit in the Common Reserve Account exceed the Common Reserve Account Requirement, the Board will withdraw the amount of such excess and deposit such excess to the credit of the Payment Account or the Operating Fund, as the Board shall determine.

Whenever the amount (exclusive of Support Facilities) in the Common Reserve Account, together with the amount in the Payment Account attributable to Bonds entitled to the benefit of the Common Reserve Account, is sufficient to pay in full the principal or Redemption price, if any, of interest on all such Outstanding Bonds in accordance with their terms, the funds on credit to the Common Reserve Account will be transferred to the Payment Account. Prior to such transfer, all Investment Securities held in the Common Reserve Account will be liquidated by the Board to the extent necessary to provide for timely payment of the principal or Redemption Price, if any, of and interest on such Bonds.

When a Series of Bonds entitled to the benefit of the Common Reserve Account are refunded in whole or in part or are otherwise paid, moneys may be withdrawn from the Common Reserve Account for such Series to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be; provided that immediately after such withdrawal or transfer there must be on credit to the Common Reserve Account an amount equal to the Reserve Account Requirement for the Bonds then Outstanding which are entitled to the benefit of the Common Reserve Account, after taking into account such refunding or payment.

The Common Reserve Account Requirement is to be calculated or recalculated: (i) at the time of issuance of a Series of Bonds (or Bond Anticipation Notes); (ii) at the time a Series of Bonds is retired in its entirety; (iii) at such other time as in the Opinion of Counsel is required to maintain the exclusion of interest on the Bonds from gross income for federal income taxation purposes.

Subordinate Obligation Fund. The Board will at all times maintain in the Subordinate Obligation Fund an amount equal to the Subordinate Obligation Requirement. Moneys on credit to the Subordinate Obligation Fund will be applied by the Board solely in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in the resolution, indenture or other instrument of the Board securing or evidencing such Subordinate Obligations. Any moneys credited to the Subordinate Obligation Fund are immediately free and clear of the lien and pledge created by the Resolution.

Reimbursable Obligation Fund. The Board will at all times maintain in the Reimbursable Obligation Fund an amount equal to the Reimbursable Obligation Requirement. Moneys on deposit in the Reimbursable Obligation Fund will be applied by the Board solely to reimburse the General Fund of the City and County for payment of debt service due on Reimbursable Obligation issued or to be issued by the City and County with respect to the Water System. Any moneys deposited in the Reimbursable Obligation Fund are immediately free and clear of the lien and pledge created by the Resolution.

Renewal and Replacement Fund. Moneys on credit to the Renewal and Replacement Fund may be applied to the Costs of Improvements, or the reconstruction of, the Water System, emergency repairs of the Water System, and major or extraordinary repairs, renewals or replacements of the Water System, in each case to be set forth in the Annual Budget: (i) to restore or prevent physical damage to the Water System or any part thereof; (ii) for the safe and efficient operation of the Water System; or (iii) to prevent loss of Revenues.

If, on the day preceding any interest payment date, the moneys in the Payment Account, after making the transfers from the Common Reserve Account and the General Fund as provided in the Resolution, are insufficient to pay the interest and principal becoming due on the Bonds, the Board will transfer from the Renewal and

Replacement Fund for credit to the Debt Service Fund the amount necessary (or all the moneys in such Fund if less than the amount necessary) to satisfy such deficiency.

If, on each January 1 and July 1, (i) the moneys, Investment Securities and the amount of all Support Facilities credited to the Common Reserve Account are less than the Common Reserve Account Requirement, and the transfer referred to in the preceding paragraph has been made, the Board will transfer from the Renewal and Replacement Fund for credit to the Common Reserve Account the amount necessary (or all the moneys in such Fund if less than the amount necessary) to satisfy such deficiency; and (ii) the moneys, Investment Securities and amount of Support Facilities credited to any Series Reserve Account are less than the Series Reserve Account Requirement for such Series Reserve Account, and the transfer referred to in the above paragraph have been made, the Board will transfer from the Renewal and Replacement Fund for credit to such Series Reserve Account the amount necessary (or all the moneys in said Fund if less than the amount necessary) to eliminate such deficiency; provided, however, that such transfers will be pro rata, based on the proportion of the Common Reserve Account Requirement and each Series Reserve Account Requirement to the sum of the Common Reserve Account Requirement and all Series Reserve Account Requirements.

If the moneys on credit to the Subordinate Obligation Fund are less than the Subordinate Obligation Requirement, and the transfers referred to in the preceding two paragraphs have been made, the Board will transfer from the Renewal and Replacement Fund to the Subordinate Obligation Fund the amount necessary (or all the moneys in such Fund if less than the amount necessary) to satisfy such deficiency.

If the moneys on deposit in the Reimbursable Obligation Fund are less than the Reimbursable Obligation Requirement, and the transfers referred to in the preceding three paragraphs have been made, the Board will transfer from the Renewal and Replacement Fund to the Reimbursable Obligation Fund the amount necessary (or all the moneys in such Fund if less than the amount necessary) to satisfy such deficiency.

General Fund. The Board will transfer from the General Fund: (i) to the Payment Account, the Common Reserve Account and each Series Reserve Account the amount necessary (or all the moneys in the General Fund if less than the amount necessary) to satisfy any deficiencies in payments to such Accounts required by the Resolution; (ii) in the event of any transfer of moneys from the Common Reserve Account or any Series Reserve Account to the Payment Account, to the Common Reserve Account or such Series Reserve Account the amount of any resulting deficiency in such Account; (iii) provided that all transfers referred to in clauses (i) and (ii) above have been made, to the Renewal and Replacement Fund the amount, if any, necessary to satisfy the deficiency in such Fund; (iv) such amount as the Board may, in its discretion, determine to set aside in reserve for meeting the deficiencies referred to in clauses (i) through (iii) above; (v) provided that all transfers and reserves therefor referred to in clauses (i) through (iv) above have been made, to the Subordinate Obligation Fund the amount, if any, necessary to satisfy any deficiency in meeting the Subordinate Obligation Requirement; and (vi) provided that all transfers and reserves therefor referred to in clauses (i) through (v) above have been made, to the Reimbursable Obligation Fund, the amount, if any, necessary to satisfy any deficiency in meeting the Reimbursable Obligation Requirement.

Amounts in the General Fund not required to meet a deficiency referred to in the preceding paragraph may be applied to any of the following purposes:

(1) the Costs of Improvements, or the provision of one or more reserves therefor;

(2) for transfer to the Rate Stabilization Account in the Operating Fund such amounts as may be provided in the Annual Budget for the purpose of stabilizing rates and charges.

(3) the purchase at such price or prices as the Board may deem advisable or redemption of any Bonds and expenses of such purchase or redemption or, at any time; or

(4) for any other lawful purpose of the Board.

Improvement Fund. The Series Resolution or Series Certificate providing for the issuance of any Series of Bonds (exclusive of Refunding Bonds) may create and establish one or more separate special series improvement accounts (a “Series Improvement Account”) in the Improvement Fund. In the event any interest on such Bonds is to be capitalized from the proceeds of such Bonds, there will be created in the Improvement Fund a special series account (a “Series Capitalized Interest Account”) with such designation as may be appropriate.

Moneys credited to any Series Capitalized Interest Account will be used for the purpose of paying interest on the Bonds of the related designated Series. On or before the 5th day preceding the end of the month next preceding the maturity of an installment of interest on the Bonds for the payment of which moneys have been credited to a Series Capitalized Interest Account, the Board will transfer from such Series Capitalized Interest Account for credit to the Payment Account an amount which, together with any moneys theretofore held in the Payment Account, will be sufficient to pay such next maturing installment of interest on such Bonds.

Investment of Funds

Moneys in the Payment Account shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Director of Budget and Fiscal Services (at the Written Direction of an Authorized Officer) solely in noncallable Investment Securities which are Government Obligations, FNMAs or FHLMCs (as such terms are defined in the definition of Investment Securities) which mature or are subject to redemption at the option of the holder on or prior to the respective dates when the moneys in Payment Account will be required for the purposes intended.

Moneys in the Common Reserve Account or any Series Reserve Account not required for immediate disbursement for the purpose for which the Common Reserve Account or such Series Reserve Account is created may, to the fullest extent practicable and reasonable, be invested and reinvested solely in, and obligations credited to the Common Reserve Account shall be, investments specified in items (i) to (vi), inclusive, of the definition of Investment Securities and which shall mature not later than five (5) years from the date of investment thereof. The Director of Budget and Fiscal Services shall not be liable for any depreciation in value of any such investments.

Moneys in the Operating Fund and General Fund not required for immediate disbursement for the purpose for which such Funds are created shall, to the fullest extent practicable and reasonable, be invested and reinvested, to the extent allowed by law, solely in, and obligations deposited in such Funds will be, Investment Securities which mature or are subject to redemption at the option of the holder not later than such times as will be necessary to provide moneys when needed to provide payments from such Funds.

Moneys in a Improvement Fund, other than a Series Capitalized Interest Account therein, not required for immediate disbursement for the purposes for which such Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Board to the extent allowed by law, solely in, and obligations deposited in such Fund will be, Investment Securities which mature or are subject to redemption at the option of the holder not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund.

Moneys in a Series Capitalized Interest Account not required for immediate disbursement for the purposes for which such Account is created will, to the fullest extent practicable and reasonable, be invested and reinvested by the Board to the extent allowed by law, solely in, and obligations deposited in such Account shall be, noncallable Investment Securities which are Government Obligations, FNMAs or FHLMCs (as such terms are defined in the definition of Investment Securities) which mature or are subject to redemption at the option of the holder not later than such times as shall be necessary to provide moneys when needed to provide payments from such Account.

To the extent permitted in the Resolution, all income received from the investment or reinvestment of moneys in the Funds and Accounts will be deposited in the respective Funds and Account from which such investments are made and applied as a credit against the next succeeding deposit or credit required to be made pursuant to the Resolution; provided, however, that, except as to the Subordinate Obligation Account and the Reimbursable Obligation Account, all or a portion of the income received from the investment or reinvestment of moneys in any such Fund and Account may be deposited in the Operating Fund or the Improvement Fund, including any Series Capitalized Interest Account therein; and provided, further, however, that all income received from the investment or reinvestment of moneys in any Series Capitalized Interest Account will be credited to the Payment Account.

Valuation of Investment Securities

In computing the amount in any Fund or Account, Investment Securities therein are to be valued at cost or accreted market value, whichever is lower, exclusive of accrued interest. The Board shall determine the value of Investment Securities held in any Fund or Account as frequently as it deems necessary, but not less often than annually.

Depositaries

All moneys deposited under the provisions of the Resolution with the Board or any Depositary or Paying Agent must be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds and Accounts established by the Resolution shall be a trust fund.

Each Depositary and Paying Agent, other than the Director of Budget and Fiscal Services, must be a bank or trust company organized under the laws of any state of the United States of America or a national banking association, in each case having capital stock, surplus and undivided earnings of $5,000,000 or more and willing and able to accept such office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution.

Concerning Paying Agents and Depositaries

Paying Agents and Depositaries May Buy, Hold, Sell or Deal in Bonds. Each Paying Agent and each Depositary, and its respective directors, officers, employees or agents, may in good faith buy, sell, own, hold and deal in any of the Bonds or coupons, if any, issued under the provisions of the Resolution and may join any action which any holder of a Bond may be entitled to take, with like effect as if such depositary were not a Paying Agent or Depositary under the Resolution.

Reimbursement of Paying Agents and Depositaries. Each Paying Agent and Depositary is entitled to reasonable fees and to reimbursement by the Board for all expenses and charges reasonably incurred by it in the performance of its duties under the Resolution.

Covenants

The Board has covenanted and agreed in the Resolution with the holders of all Bonds issued pursuant to the Resolution as follows:

Maintenance of the Water System; Keeping the System in Good Repair. The Board will: (i) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Water System and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition, (ii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith will be properly and advantageously be conducted, and (iii) comply, or cause to be complied with the terms and conditions of any permit or license for the Water System or any part thereof issued by any federal or State governmental agency or body and with any federal or State law or regulation applicable to the construction, operation, maintenance and repair of the Water System or requiring a license, permit or approval therefor.

Rates and Charges. The Board will fix, charge and collect such rates and other charges as will be required in order that in each Fiscal Year the Net Revenues will be not less than the Net Revenue Requirement for such Fiscal Year (*"Rate Covenant"*). The failure in any Fiscal Year to comply with the Rate Covenant does not constitute an Event of Default if the Board complies with requirements described in the next paragraph.

Prior to the end of each Fiscal Year the Manager will complete a review of the financial condition of the Department for the purpose of estimating whether the Net Revenues for such Fiscal Year and for the next succeeding Fiscal Year will be sufficient to comply with the *Rate Covenant* described in the preceding paragraph and will by a Written Certificate make a determination with respect thereto. Such review will take into consideration the completion of any uncompleted Improvement and the issuance of future Series of Bonds if necessary to finance the completion of such Improvements. Such Written Certificate setting forth a reasonably detailed statement of the actual and estimated Revenues, Operation and Maintenance Expenses, Aggregate Debt Service, and any other estimates or assumptions upon which such determination was based, must be filed with the Board on or before July 1 in each year. If the Manager determines that the Revenues may not be so sufficient, the Manager or the Board shall forthwith make a study for the purpose of determining a schedule of fees, rates and charges which, in the opinion of the Manager or the Board, will cause sufficient Revenues to be collected in the following Fiscal Year to comply with the *Rate Covenant* described in the preceding paragraph and will cause additional Revenues to be collected in such following and later Fiscal Years sufficient to eliminate the amount of any deficiency at the earliest practicable time, or the Manager or the Board may elect to cause the Consulting Engineer to make such a study and render such opinion. The Board will as promptly as practicable but no later than the 120 days following such determination by the Manager or the Board, or receipt of the Consulting Engineer's recommendation, adopt and place in effect such schedule of fees, rates and charges as so determined or recommended.

Sale, Lease or Other Disposition of Properties of the Water System. The Board will not sell, mortgage, lease or otherwise dispose of the properties of the Water System except as described below.

(1) The Board may sell, lease, or otherwise dispose of the properties comprising the Water System if simultaneously with such disposition thereof provision is made for the payment of all Bonds then outstanding and such Bonds are no longer deemed Outstanding under the Resolution.

(2) The Board may from time to time, on such terms and conditions as may be prescribed by the Board, sell, lease or otherwise dispose of any part of the properties comprising the Water System determined by the Board to have a value as of the date of such disposition not exceeding 5% of the net book assets of the Water System as of the last day of the preceding Fiscal Year, as shown in the most recent audited financial statements of the Board. The Board may sell, lease or otherwise dispose of any part of the properties comprising the Water System having a value in excess of such percentage if the Consulting Engineer certifies to the Board in writing that the terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Revenues to be derived from the remaining properties of the Water System, after taking into consideration the use by the Board of the proceeds of such proposed disposition of such properties, will be sufficient to enable the Board to comply with all covenants and conditions of the Resolution. Proceeds of any sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph will be paid into the Payment Account and applied to the purchase of redemption of Bonds or into the Operating Fund and applied by the Board for the purpose of financing Improvements to the Water System or other lawful purposes of the Board, as the Board may determine.

(3) The Board may sell, lease, or otherwise dispose of surplus lands, crops, timber, buildings and any other portion of the works, plant and facilities of the Water System and real and personal property comprising a part thereof, which, in the opinion of the Board, have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Water System, or no longer necessary, material to, or useful in such operation. Proceeds of any such sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph will be paid into the Operating Fund.

(4) If permitted by the laws of the State, the Board may transfer without consideration the properties comprising the Water System to a public corporation or political subdivision of the State, provided such corporation or subdivision assumes all of the Board's obligations and duties under the Resolution.

(5) In the event that any part of the properties of the Water System are transferred from the Board through the operation of law (including condemnation), any moneys received by the Board as a result thereof must be paid: (i) if such proceeds are not in excess of $250,000, into the Operating Fund, or (ii) if such proceeds are in excess of $250,000: (a) into the Payment Account and applied to the purchase or redemption of Bonds, or (b) into the Renewal and Replacement Fund and applied by the Board for the purpose of financing Improvements to the Water System, as the Board shall determine.

Insurance. Except as provided in the next paragraph, the Board will keep, or cause to be kept, the works, plants and facilities comprising the properties of the Water System and the operations thereof insured to the extent available at reasonable cost with responsible insurers, with policies payable to the Board, against risks of direct physical loss, damage to or destruction of the Water System, or any part thereof, at least to the extent that similar insurance is usually carried by utilities operating like properties against accidents, casualties or negligence, including liability insurance and worker's compensation insurance; provided, however, that any time while any contractor engaged in constructing any part of the Water System is fully responsible therefor, the Board is not required to keep such part of the Water System insured. All policies of insurance must be for the benefit of the holders of the Bonds and the Board as their respective interests may appear. In the event of any loss or damage to the properties of the Water System covered by insurance, the Board will: (1) with respect to each such loss, promptly repair and reconstruct to the extent necessary to the proper conduct of the operations of the Water System the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, unless, in case of loss or damage involving $250,000 or more, the Board will determine that such repair and reconstruction not be undertaken, and (2) if the Board will not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, the proceeds of such insurance policy or policies or any portion thereof not used for such repair or reconstruction, as the case may be, will be paid into the Operating Fund.

The Board may elect to self-insure. If the Board elects to self-insure differently from other utilities in the same business, or fails to carry insurance against any of the risks normally insured against by operators of facilities similar to the Water System, it must secure the concurrence of an independent insurance consultant. In making its decision whether to concur in such self-insurance, the independent insurance consultant must: (i) make an estimate of the added financial risks, if any, assumed by the Board as a result of the self-insurance, (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the costs of such available insurance, and the effect of such terms and costs upon the Board's costs and charges for its services, and (iii) determine whether the added financial risk, if any, being assumed by the Board is prudent in light of the savings to be realized from such self-insurance or in light of the general availability of insurance.

All the insurance required under the Resolution may be maintained as part of a blanket insurance policy by the City and County.

Consulting Engineer. The Board may from time to time retain and appoint, as Consulting Engineer, an independent consulting engineer or engineering firm or corporation having special skill, knowledge and experience in analyzing the operations of water systems, preparing rate analyses, forecasting the loads and revenues of water systems, preparing feasibility reports respecting the financing of water systems and advising on the operation of water facilities, who shall be available to advise the Board, upon request, and to make such investigations and determinations as may be necessary from time to time under the provisions of the Resolution.

Books of Account; Annual Audit. The Board will maintain and keep proper books of account relating to the Water System and in accordance with generally accepted accounting principles. Within 180 days after the end of each Fiscal Year, the Board will cause such books of account to be audited by an independent certified public accountant. The audit may be part of a comprehensive audit of the City and County, provided that the Water System in such audit is treated as an "enterprise fund" and the revenues and expenses of the Water System are stated in a manner which permits identification by category of the sources and uses of the Revenues. A copy of each audit report in conformity with generally accepted accounting principles must be filed promptly with the Board and sent to any Bondholder filing with the Manager a written request for a copy thereof and to each Rating Agency.

To Pay Bonds Punctually. The Board will duly and punctually pay, or cause to be paid, but only from the Revenues and income specified in the Resolution, the principal and Redemption Price (if any) of, and interest on each and every Bond on the dates and at the places, and in the manner provided in the Bonds according to the true intent and meaning thereof, and the Board will faithfully do and perform and at all times fully observe and keep any and all of its covenants, undertakings, stipulations and provisions contained in the Bonds and in the Resolution.

Payment of Taxes and Other Claims. The Board will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or payments in lieu thereof, lawfully imposed upon the properties of the Water System (or any part thereof) or upon the Net Revenues or income received therefrom when the same become due, as well as all lawful claims for labor, material and supplies, which, if not paid, might become a lien or charge upon said properties or any part thereof, or upon the Revenues derived from the ownership or operation thereof, or which might in any way impair the security of the Bonds, except any such assessments, charges or claims which the Board shall in good faith contest as to validity.

Extension of Payment of Bonds. The Board will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such claims for interest is extended, such Bonds or claims for interest will not be entitled in case of any default under the Resolution to the benefit of the Resolution or to any payment out of any assets of the Board or the funds (except funds held in trust for the payment of particular Bonds or claims for interest pursuant to the Resolution) held by the Paying Agent, except subject to the prior payment of the principal of all Bonds issued and outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as will not be represented by such extended claims for interest.

Sound Improvements. The Board will not expend any of the income, revenues, receipts, profits and other moneys derived by it from the ownership or operation of the Water System for any Improvements which, in the sole opinion of the Manager, will not properly and advantageously contribute to the conduct of the business of the Water System in an efficient and economical manner unless required to do so to permit the continued operation of the Water System or to preserve or protect the Water System, including the Board's wells and water supply and the integrity thereof.

Tax Covenants. In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Tax-exempt Bonds of any Series, the Board shall comply with the provisions of the Code applicable to such Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of such Bonds, reporting of earnings on the Gross Proceeds of such Bonds, and payment of any Rebate Amount to the United States Treasury Department.

Annual Budget. Not later than May 31 before the beginning of any Fiscal Year the Board will prepare a preliminary budget of Operation and Maintenance Expenses of the Water System and reserves therefor for the ensuing Fiscal Year. Each such preliminary budget and each Annual Budget will include, in addition to provisions for all anticipated Operation and Maintenance Expenses, provision for the payments required to be made to the Renewal and Replacement Fund, provided that such payments shall in the aggregate, at least equal the amount described below. Such preliminary budget and any Annual Budget may set forth such additional material as the Board may determine.

Except as described below, on or before the 15th day of each such Fiscal Year, the Board shall finally adopt the Annual Budget for such year. The Board may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year. Copies of the Annual Budget and of any amended Annual Budget shall be promptly filed with the Board, for inspection by Bondholders.

If for any reason the Board does not adopt the Annual Budget before the 15th day of any Fiscal Year, the budget for the preceding Fiscal Year is deemed to be in effect for such Fiscal Year until the Annual Budget for such Fiscal Year is adopted. For any purpose of computation under the provisions of the Resolution, the budget for the preceding year is deemed to have been adopted for any Fiscal Year until the Annual Budget for such year is adopted and a copy thereof filed with the Board.

Every preliminary budget, Annual Budget and amended Annual Budget must: (i) set forth in reasonable detail amounts required for repair, replacement or reconstruction of the Water System and major or extraordinary repairs, renewals or replacements of the Water System, if any, for the period to be covered by such budget, (ii) specify the amounts to be deposited in the Renewal and Replacement Fund, the Subordinate Obligation Fund, the Reimbursable Obligation Fund and the General Fund, the amounts to be maintained in the Operating Fund for working capital and operating reserves and in the Rate Stabilization Account for rate stabilization purposes, if any, for such purposes for such period, (iii) specify the amounts to be transferred from the General Fund to the Rate Stabilization Account and to other Funds and Accounts, and (iv) project the amounts required for such purposes for the next five Fiscal Years in such format as the Manager shall determine. A copy of each such report will be filed and maintained in the records of the Board.

Events of Default

Each of the following events constitutes an Event of Default under the Resolution:

(a) if payment of the principal and Redemption Price (if any) of any Bond is not punctually made when due and payable, whether at the stated maturity thereof or upon proceedings for the redemption thereof (whether by voluntary redemption or a mandatory sinking fund redemption or otherwise);

(b) if payment of the interest on any Bond is not punctually be made when due;

(c) if the provisions of any Series Resolution with respect to mandatory Sinking Fund Installment payments or the redemption of Term Bonds therefrom, as the case may be, are not punctually complied with at the time and in the manner specified in such Series Resolution;

(d) if the Board fails to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Resolution or in the Bonds, on the part of the Board to be performed, and such failure continues for 90 days after written notice thereof from the holders of not less than 20% of the Bonds then Outstanding; provided that, if such failure is such that it cannot be corrected within such 90-day period, it will not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected; or

(e) if the Board: (i) admits in writing its inability to pay its debts generally as they become due; or (ii) files a petition in bankruptcy or seeking a composition of indebtedness under the provisions of any federal or State bankruptcy or similar law; or (iii) makes an assignment for the benefit of its creditors; or (iv) files a petition or any answer seeking relief under the provisions of any federal or State bankruptcy or similar law; or (v) consents to the appointment of a receiver of the whole or any substantial part of the Water System; or (vi) consents to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the Board, or of the whole or any substantial part of the Water System.

Notice to Bondholders of Event of Default

Immediately after the occurrence of an Event of Default, or within 30 days after any Paying Agent knows of any Event of Default, the Paying Agent or Paying Agents will give to the Bondholders, all other Paying Agents, and all Support Facility Providers, and each Rating Agency, in the manner provided in the Resolution, notice of all Events of Default known to the Board, unless such Events of Default have been cured before the giving of such notice.

Acceleration of Bonds

If an Event of Default shall happen and shall not have been remedied, then and in every such case the holders of not less than 25% in principal amount of the Bonds then Outstanding, by notice in writing to the Board and the Director of Budget and Fiscal Services, may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable. The right of the holders of not less than 25% in principal amount of the Bonds then Outstanding to make any such declaration, however, shall be subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and all other sums then payable by the Board under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Board or provision satisfactory to the holders of a majority in principal amount of the Bonds then Outstanding shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be cured or be secured to the satisfaction of the holders of a majority in principal amount of the Bonds then Outstanding or provision deemed by such holders of the Bonds to be adequate shall be made therefor, then and in every such case the holders of a majority in principal amount of the Bonds then Outstanding, by written notice to the Board, may rescind such declaration and annul such default in its entirety, but no such rescission shall extend to or affect any subsequent default or impair or exhaust any resulting right or power.

Inspection of Books and Records; Board to Account as Trustee for Express Trust

The Board has covenanted in the Resolution that if an Event of Default has happened and has not been remedied, the books of record and account of the Board relating to the Water System and all other records relating thereto will at all times be subject to the inspection and use of the holders of 25% in principal amount of Bonds Outstanding and of their respective agents and attorneys or of any committee therefor.

The Board has also covenanted in the Resolution that if an Event of Default has happened and has not been remedied, the Board will continue to account, as a trustee of an express trust, for all Revenues and other Moneys, securities and funds pledged under the Resolution.

Application of Revenues in an Event of Default

During the continuance of an Event of Default as defined in items (a) through (c) of Section 9.01 of the Resolution or of any other Event of Default as defined in such Section 9.01 resulting in an Event of Default as defined in items (a) through (c) of such Section 9.01, the Revenues received by a receiver appointed pursuant to Section 9.06 as the result of the taking of possession of the business and properties of the Water System, are to be applied by the receiver firstly to the payment of all necessary and proper Operation and Maintenance Expenses of the Water System and all other proper disbursements or liabilities made or incurred by the receiver; secondly, to the then due and overdue payments into the Debt Service Fund, including the making up of deficiencies therein; and lastly, for any lawful purpose in connection with the Water System.

In the event that at any time the funds held by the receiver pursuant to the preceding paragraph are insufficient for the payment of the principal and Redemption Price (if any) of, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons) and all Revenues of the Board are to be applied as follows:

(1) Unless the principal of all of the Bonds have become due and payable,

First, to the payment of all necessary and proper Operating and Maintenance Expenses and all other proper disbursements or liabilities made or incurred by the receiver;

Second, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amount due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Bonds at the time of such payment without preference or priority of any Bond over any other Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference.

(2) If the principal of all of the Bonds have become due and payable,

First, to the payment of all necessary and proper Operation and Maintenance Expenses and all other proper disbursements or liabilities made or incurred by the receiver; and

Second, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Whenever moneys are to be applied pursuant to the foregoing paragraphs, such moneys shall be applied by the receiver, at such times, and from time to time, as it in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses, and liabilities of the holders of the Bonds, their respective agents and attorneys, and all other sums payable by the Board under the Resolution including the principal and Redemption Price (if any) on all Bonds which are then payable, will either be paid in full by or for the account of the Board or provision satisfactory to the receiver will be made for such payment, and all defaults under the Resolution or the Bonds has been made good and secured to the satisfaction of the receiver or provision deemed by the receiver to be adequate therefor, the receiver will pay over to the Board all of its moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bondholders' Committee, described below (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Director of Budget and Fiscal Services), control of the business and possession of the property of the Board will be restored to the Board, and thereupon the Board will be restored to its former positions and rights under the Resolution, and all Revenues will thereafter be applied as provided in the Resolution as if no default had occurred. No such payment over to the Board or resumption of this application of Revenues, as provided in the Resolution, will extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

Certain Remedies of Bondholders

If an Event of Default has happened and has not have been remedied, the holder of any Bond Outstanding shall be entitled, for the equal benefit and protection of all holders of Bonds similarly situated, to protect and enforce the rights vested in such holder by the Resolution by such appropriate judicial proceeding as such holder shall deem most effectual to protect and enforce any such right, either by suit in equity or by action of law, whether for the specific performance of any covenant or agreement contained in the Resolution, or in aid of the exercise of any power granted in the Resolution, or to enforce any other legal or equitable right vested in the holders of Bonds by the Resolution or by law; provided, however, that no judicial proceeding shall be brought seeking the appointment of a receiver to take possession of the Water System, or to manage, receive and apply the Revenues unless the holders of not less than a majority in principal amount of the Bonds then Outstanding or a Bondholders' Committee representing the holders of not less than a majority in principal amount of the Bonds then Outstanding shall have joined in or consented to such proceeding.

Bondholders' Committee. If an Event of Default has happened and has not been remedied, the holders of not less than 25% in principal amount of the Bonds then Outstanding may call a meeting of the holders of Bonds for the purpose of electing a Bondholders' Committee. Such meeting shall be called and proceedings thereat shall be conducted as provided for other meetings of Bondholders pursuant to the Resolution. At such meeting the holders of not less than a majority of the principal amount of the Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any notice other than that required by the Resolution. A quorum being present at such meeting, the Bondholders present in person or by proxy may, by the votes cast by the holders of a majority in principal amount of the Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholders present in person or by proxy at said meeting, or at any adjourned meeting thereof, will prescribe the manner in which the successors of the persons elected to the Bondholders' Committee at such Bondholders' meeting are to be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondholders'

Committee of the power conferred upon it in the Resolution, and may provide for the termination of the existence of the Bondholders' Committee.

Bondholders May Direct Proceedings

The holders of not less than a majority in principal amount of the Bonds at the time outstanding are authorized and empowered: (1) to direct the time, method, and place of conducting any proceeding for any remedy available to the holders of the Bonds; or (2) on behalf of the holders of the Bonds then Outstanding, to consent to the waiver of any Event of Default or its consequences.

Abandonment; Adverse Determination

In case the holders of the Bonds or a Bondholders' Committee has proceeded to enforce any right under the Resolution and such proceedings have been discontinued or abandoned for any reason, or have been determined adversely to the holders of the Bonds or a Bondholders' Committee, then and in every such case the Board and the holders of the Bonds will be restored to their former positions and rights under the Resolution, and all rights, remedies and powers of the holders of the Bonds will continue as if no such proceedings had been taken.

Amending and Supplementing of Resolution

Amending and Supplementing of Resolution Without Consent of Holders of Bonds. (A) The Board, from time to time and at any time and without the consent or concurrence of any holder of any Bond, may adopt a Supplemental Resolution: (i) for the purpose of providing for the issuance of Bonds pursuant to the provisions of the Resolution (which Supplemental Resolution shall be a Series Resolution); (ii) to make any changes, modifications, amendments or deletions to the Resolution which may be required to permit the Resolution to be qualified under the Trust Indenture Act of 1939 of the United States of America; or (iii) if the Board determines that the rights of the holders of the Bonds then Outstanding shall not be materially adversely affected thereby, for any one or more of the following purposes:

1. to make any changes or corrections in the Resolution as to which the Board shall have been advised by counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Resolution, or to insert in the Resolution such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable;

2. to add additional covenants and agreements of the Board for the purpose of further securing the payment of the Bonds;

3. to surrender any right, power or privilege reserved to or conferred upon the Board by the terms of the Resolution;

4. to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Resolution;

5. to grant or to confer upon the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; and

6. to modify in any other respect any of the provisions of the Resolution.

(B) Except for Series Resolutions authorizing the issuance of Bonds pursuant to the Resolution, the Board shall not adopt any Supplemental Resolution authorized by the foregoing provisions unless in the Opinion of Counsel to the effect that the adoption of such Supplemental Resolution is permitted by the foregoing provisions and the provisions of such Supplemental Resolution do not adversely affect the rights of the holders of the Bonds then Outstanding.

Amendment of Resolution With Consent of Holders of Bonds. With the consent of the holders of not less than a majority of the Bonds then Outstanding, the Board may from time to time and at any time adopt a Supplemental Resolution amending or supplementing the Resolution for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Resolution, or modifying or amending the rights and obligations of the Board under the Resolution, or modifying or amending in any manner the rights of the holders of the Bonds then Outstanding. For purposes of the preceding sentence, the written consent of each Support Facility Provider providing a Support Facility for any Bonds shall constitute consent of the Holders of such Bonds.

Without the specific consent of the holder of each such Bond which would be affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Resolution will:

(1) change the fixed maturity date for the payment of the principal of any Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the Redemption Price (including any premium) payable upon the redemption or prepayment thereof;

(2) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Resolution;

(3) give to any Bond or Bonds any preference over any other Bond or Bonds secured by the Resolution;

(4) authorize the creation of any pledge of the Revenues and other moneys pledged under the Resolution, prior, superior or equal to the pledge of and lien and charge thereon created therein for the payment of the Bonds except to the extent provided in the Resolution; or

(5) deprive any holder of the Bonds in any material respect of the security afforded by the Resolution;

provided further, however, that without the specific consents of the holders of not less than a majority in principal amount of the Term Bonds then Outstanding and affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Resolution may: (a) change the amount of any Sinking Fund Installments for the retirement of Term Bonds or the due dates of such installments or the terms for the purchase or redemption thereof from such installments, or (b) reduce the aforesaid percentage of Term Bonds, the holders of which are required to consent to any such Supplemental Resolution. A modification or amendment of the provisions of the Resolution with respect to the Operating Fund or the Payment Account or Common Reserve Account or any Separate Series Reserve Account will not be deemed a change in the terms of payments; provided that no such modification or amendment shall, except upon the consent of the holders of all Bonds then Outstanding affected thereby, reduce the amount or amounts required to be credited to the Payment Account or Common Reserve Account or any Separate Series Reserve Account.

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APPENDIX F

Book-Entry System

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BOOK-ENTRY SYSTEM

Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the Board and the Underwriter believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter or the Board.

DTC will act as securities depository for the Series 2012A Bonds. The Series 2012A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2012A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2012A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2012A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2012A Bonds, except in the event that use of the book-entry system for the Series 2012A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2012A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Series 2012A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2012A Bonds, such as redemptions defaults, and proposed amendments to the Series 2012A Bond documents. For example, Beneficial Owners of the Series 2012A Bonds may wish to ascertain that the nominee holding the Series 2012A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2012A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2012A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2012A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or its nominee, the Paying Agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2012A Bonds at any time by giving reasonable notice to the Board or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2012A Bond certificates are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2012A Bond certificates will be printed and delivered to DTC.

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