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 2014A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2014A 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 is of the opinion that the Series 2014 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. Bond Counsel further observes that interest on the Series 2014B Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2014 Bonds. See "TAX MATTERS" in this Official Statement.

$144,985,000
BOARD OF WATER SUPPLY
City and County of Honolulu
Water System Revenue Bonds

$101,655,000	$43,330,000
Series 2014A Bonds	**Series 2014B Bonds**
(Tax-Exempt)	**(Taxable)**

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

The Series 2014A Bonds and Series 2014B Bonds (together, the "Series 2014 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 2014 Bonds, purchases of the Series 2014 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 2014 Bonds will not receive physical delivery of bond certificates; payment of the principal of and interest and any premium on the Series 2014 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 2014 Bonds is payable on January 1, 2015 and semiannually on each July 1 and January 1 thereafter. The Series 2014 Bonds are subject to optional redemption prior to the stated maturity thereof as described herein.

The Series 2014 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 2014 Bonds herein described, the "Bonds") under and pursuant to the Resolution to the extent provided in the Resolution as described herein. As discussed herein (see "SECURITY FOR THE BONDS – Proposed Amendments to Resolution"), certain amendments to the Resolution have been proposed that require the consent of all Bondholders. By purchasing beneficial interests in the Series 2014 Bonds, the owners of such beneficial interests will be deemed to have consented to the proposed amendments.

The proceeds of the Series 2014 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 2014 Bonds.

All Bonds issued under and pursuant to the Resolution, including the Series 2014 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 2014 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 2014 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 2014 Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about December 9, 2014.

BofA Merrill Lynch

Dated: November 20, 2014

MATURITY SCHEDULE

$144,985,000
Board of Water Supply
City and County of Honolulu
Water System Revenue Bonds

$101,655,000
Series 2014A Bonds
(Tax-Exempt)

Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP† (438689)	Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP† (438689)
2023	$5,585,000	5.000%	2.250%	HV6	2030	$7,930,000	5.000%	2.860%*	JC6
2024	410,000	3.000	2.350	HW4	2031	4,470,000	3.250	3.370	JD4
2024	5,455,000	5.000	2.350	JK8	2031	3,825,000	5.000	2.910*	JM4
2025	6,165,000	5.000	2.530*	HX2	2032	6,575,000	4.000	3.330*	JE2
2026	6,480,000	5.000	2.640*	HY0	2033	6,840,000	4.000	3.380*	JF9
2027	6,810,000	5.000	2.700*	HZ7	2034	8,500,000	4.000	3.430*	JG7
2028	930,000	3.000	3.120	JA0	2035	8,755,000	4.000	3.480*	JH5
2028	6,215,000	5.000	2.760*	JL6	2036	9,205,000	4.000	3.530*	JJ1
2029	7,505,000	5.000	2.810*	JB8					

$43,330,000
Series 2014B Bonds
(Taxable)

Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP† (438689)	Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP† (438689)
2015	$ 785,000	0.405%	0.405%	JN2	2024	$1,625,000	3.135%	3.135%	JX0
2016	795,000	0.805	0.805	JP7	2025	1,670,000	3.285	3.285	JY8
2017	7,395,000	1.335	1.335	JQ5	2026	1,730,000	3.385	3.385	JZ5
2018	4,590,000	1.744	1.744	JR3	2027	1,785,000	3.485	3.485	KA8
2019	4,680,000	2.144	2.144	JS1	2028	1,845,000	3.585	3.585	KB6
2020	4,790,000	2.389	2.389	JT9	2029	1,910,000	3.685	3.685	KC4
2021	2,585,000	2.619	2.619	JU6	2030	1,975,000	3.760	3.760	KD2
2022	1,540,000	2.755	2.755	JV4	2031	2,045,000	3.860	3.860	KE0
2023	1,585,000	2.915	2.915	JW2					

* *Priced to call at par on July 1, 2024.*

Board of Water Supply
City and County of Honolulu

630 South Beretania Street
Honolulu, Hawaii 96843

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 2014 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 2014 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 2014 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2014 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 2014 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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Board of Water Supply
City and County of Honolulu
Water System Revenue Bonds

$101,655,000	**$43,330,000**
Series 2014A Bonds	**Series 2014B Bonds**
(Tax-Exempt)	**(Taxable)**

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 $144,985,000 aggregate principal amount of Water System Revenue Bonds, Series 2014A and Series 2014B (together, the "Series 2014 Bonds"). The Series 2014 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 October 27, 2014 (the "2014 Series Resolution"). The Bond Resolution, as previously supplemented, as supplemented by the 2014 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 2014 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 2014 Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS" herein.

The Series 2014 Bonds are the eighth and ninth series of Water System Revenue Bonds (collectively, including the Series 2014 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 $262,185,000 of Bonds are currently outstanding. All Bonds issued under and pursuant to the Resolution, including the Series 2014 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 167,931 separate accounts and an estimated residential population of 983,429 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, 155,871 are residential (92.8%), representing 60.4% of the total amount received from water sales in Fiscal Year 2014; 11,149 are commercial and industrial (6.7%), representing 38.7% of the total amount received from water sales in Fiscal Year 2014; and 911 are agricultural (0.5%), representing 0.9% of the total amount received from water sales in Fiscal Year 2014. 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 2014 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 2014 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 2014 Bonds are being issued to provide the funds needed, together with proceeds of the SRF Loan described below, 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 Refunded	Interest Rate	CUSIP‡ (438689)
2006A	2015	$ 980,000	4.250%	EJ6
2006A	2016	1,025,000	4.250	EK3
2006A	2017	3,000,000	4.000	EM9
2006A	2017	975,000	4.125	EL1
2006A	2018	1,185,000	4.200	EN7
2006A	2019	645,000	4.125	EQ0
2006A	2019	595,000	5.000	ER8
2006A	2020	1,290,000	4.125	ES6
2006A	2021	390,000	4.300	ET4
2006A	2021	960,000	5.000	HT1
2006A	2022	2,740,000	4.500	HU8
2006A	2023	8,225,000	4.500	EW7
2006A	2024	8,595,000	4.500	EX5
2006A	2025	9,010,000	5.000	EY3
2006A	2026	9,470,000	5.000	EZ0
2006A	2027	9,925,000	4.500	FA4
2006A	2031	44,665,000	4.750	FB2
2006A	2036	45,530,000	5.000	FC0

‡ *Copyright, American Bankers Association. CUSIP data provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the State nor the Underwriters takes any responsibility for the accuracy of such numbers.*

Series	Maturity (July 1)	Principal Amount Refunded	Interest Rate	CUSIP[‡] (438689)
2006B	2017	3,800,000	5.250	GK1
2006B	2018	4,005,000	5.250	GL9
2006B	2019	4,220,000	5.250	GM7
2006B	2020	4,455,000	5.250	GN5
2006B	2021	2,335,000	5.250	GP0

A portion of the proceeds of the Series 2014 Bonds and the SRF Loan will be deposited with U.S. 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 addition to the Series 2014 Bonds, the Board has obtained a loan in the principal amount of $26,400,910 (the "SRF Loan") from the State's Drinking Water Treatment Revolving Loan Fund administered by the State Department of Health to provide additional funds for the refunding of the Refunded Bonds. The SRF Loan is a Subordinate Obligation within the meaning of the Resolution, subject to a semiannual loan fee equal to 0.5% of the principal balance then outstanding and repaid over a 20-year term.

In connection with the issuance of the Series 2014 Bonds and the refunding of the Refunded Bonds, the Board will obtain a verification report from Causey Demgen & Moore P.C., independent certified public accountants, as to the mathematical accuracy of certain computations pertaining to the Escrow Fund and the Series 2014 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 Series 2014 Bonds and SRF Loan are set forth below:

Sources of Funds:	**Series 2014A**	**Series 2014B**	**Total**
Par Amount of Series 2014 Bonds	$101,655,000.00	$43,330,000.00	$144,985,000.00
Plus Net Original Issue Premium	12,661,761.05	--	12,661,761.05
SRF Loan Proceeds	--	26,400,910.01	26,400,910.01
Total Sources of Funds	**$114,316,761.05**	**$69,730,910.01**	**$184,047,671.06**
Uses of Funds:			
Deposit to Escrow Fund	$113,720,269.30	$69,491,821.20	$183,212,090.50
Costs of Issuance*	596,491.75	239,088.81	835,580.56
Total Uses of Funds	**$114,316,761.05**	**$69,730,910.01**	**$184,047,671.06**

* *Includes Underwriter's discount and other legal and financial costs incurred in connection with the issuance and delivery of the Series 2014 Bonds.*

THE SERIES 2014 BONDS

General

The Series 2014 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 2014 Bonds from the date of their issuance and will be due and payable semiannually on January 1 and July 1 of each year, commencing January 1, 2015. The Series 2014 Bonds will be issued in fully registered form.

Principal of the Series 2014 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 2014 Bonds will be payable to Holders thereof registered as of the close of business on the Record Date, which, for the Series 2014 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 2014 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 2014 Bonds, all payments on the Series 2014 Bonds will be made directly to DTC.

The Board may deem and treat the person in whose name any Series 2014 Bonds shall be registered upon the books of the Board as the absolute owner thereof, whether such Series 2014 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 2014 Bonds and for all other purposes, and all such payments shall be valid and effectual to satisfy and discharge the liability upon such Series 2014 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 2014A Bonds maturing on or before July 1, 2024 are not subject to redemption prior to their respective maturity dates. The Series 2014 Bonds maturing on and after July 1, 2025 are subject to redemption prior to maturity at the option of the Board, on or after July 1, 2024, 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.

The Series 2014B Bonds maturing on or before July 1, 2024 are subject to redemption prior to the scheduled principal payment date, at the election of the Board, in whole or in part, on any date at a redemption price equal to the greater of:

(i) 100% of the principal amount of the Series 2014B Bonds to be redeemed; or

(ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Series 2014B Bonds to be redeemed to the scheduled principal payment date of such Series 2014B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2014B Bonds are to be redeemed, discounted to the date on which such Series 2014B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined herein) plus 10 basis points;

plus, in either case, accrued interest on such Series 2014B Bonds to be redeemed to the date fixed for redemption.

"Treasury Rate" means, as of the redemption, the yield to maturity as of such redemption date of the United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to maturity;

provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. The redemption price will be determined by an independent accounting firm, investment banking firm or financial consultant retained by the Board at the Board's expense and such redemption price shall be conclusive and binding on the owners of the Series 2014B Bonds.

Selection of Bonds for Redemption

If fewer than all of the Bonds of a series are called for redemption, the Board will designate the maturities from which the Bonds of such series are to be redeemed. For so long as the Bonds are registered in book-entry form and DTC or a successor securities depository is the sole registered owner of such Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds to be redeemed will be selected by lot, in the case of the Series 2014A Bonds, and on a pro rata basis in accordance with DTC procedures in the case of the Series 2014B Bonds; provided that, so long as the Bonds are held in book-entry form, the selection for redemption of the Bonds will be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata basis, all Bonds will be selected for redemption, in accordance with DTC procedures, by lot; provided further that any such redemption must be performed such that all Bonds remaining outstanding will be in authorized denominations.

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 45^{th} 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 2014 Bonds proposed to be redeemed. If the notice contains such condition, and moneys sufficient to pay in full the redemption price of the Series 2014 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 2014 Bonds. In the event of the failure to redeem, all Series 2014 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 2014 Bonds.

Book-Entry System

The Series 2014 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 2014 Bonds. Individual purchases of the Series 2014 Bonds will be made only in book-entry form. Purchasers of the Series 2014 Bonds will not receive physical certificates representing their ownership interests in the Series 2014 Bonds purchased. Principal of and interest on the Series 2014 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 2014 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 2014 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 $27,459,000 of outstanding Subordinate Obligations, which consist solely of State revolving fund loans. This amount will increase by the principal amount of the SRF Loan upon consummation of that transaction. No Reimbursable Obligations are currently outstanding.

The Series 2014 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 $262,185,000. The Board does not have any immediate expectation to issue additional Bonds under the Resolution on a parity with the Outstanding Bonds and the Series 2014 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 2014 Bonds are entitled to the benefit of the Common Reserve Account. The SRF Loan and other Subordinate Obligations are not entitled to the benefit of the Common Reserve Account. As of September 30, 2014, the Common Reserve Account balance was $23,770,854. Upon issuance of the Series 2014 Bonds and the refunding of the Refunded Bonds the Common Reserve Account Requirement (described in the following paragraph) will be reduced to $18,120,654.50.

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. See also "—Proposed Amendments to Resolutions" herein regarding a proposed amendment to the definition of Common Reserve Account Requirement.

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 2014 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 2014 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 2014 BONDS. Upon the issuance of the Series 2014 Bonds, there will be $239,150,000 of Bonds Outstanding, of which $226,640,000 (including the Series 2014 Bonds) will be deemed to have consented to the proposed amendments.

DEBT SERVICE REQUIREMENTS FOR THE BONDS

Fiscal Year Ending June 30[1]	Outstanding Bonds Debt Service[2]	Series 2014A Bonds			Series 2014B Bonds			Total Bonds Debt Service	Subordinate Lien Obligations[3]	Total Debt Service
		Principal	Interest	Debt Service	Principal	Interest	Debt Service			
2015	$16,295,158	-	$279,826	$279,826	-	$65,740	$65,740	$16,640,724	$2,673,371	$19,314,095
2016	11,285,588	-	4,578,975	4,578,975	785,000	1,074,160	1,859,160	17,723,723	3,482,399	21,206,121
2017	11,280,544	-	4,578,975	4,578,975	795,000	1,069,371	1,864,371	17,723,889	3,468,860	21,192,749
2018	4,732,375	-	4,578,975	4,578,975	7,395,000	1,016,809	8,411,809	17,723,159	3,455,321	21,178,480
2019	7,628,625	-	4,578,975	4,578,975	4,590,000	927,423	5,517,423	17,725,023	3,441,782	21,166,805
2020	7,625,925	-	4,578,975	4,578,975	4,680,000	837,228	5,517,228	17,722,128	3,428,243	21,150,371
2021	7,624,425	-	4,578,975	4,578,975	4,790,000	729,842	5,519,842	17,723,242	3,414,704	21,137,946
2022	9,919,800	-	4,578,975	4,578,975	2,585,000	638,775	3,223,775	17,722,550	3,401,165	21,123,715
2023	11,204,800	-	4,578,975	4,578,975	1,540,000	583,711	2,123,711	17,907,486	3,387,626	21,295,112
2024	5,971,300	5,585,000	4,439,350	10,024,350	1,585,000	539,396	2,124,396	18,120,046	3,374,087	21,494,133
2025	5,971,425	5,865,000	4,157,200	10,022,200	1,625,000	490,823	2,115,823	18,109,448	3,360,531	21,469,979
2026	5,967,175	6,165,000	3,860,550	10,025,550	1,670,000	437,921	2,107,921	18,100,646	2,898,183	20,998,830
2027	5,968,050	6,480,000	3,544,425	10,024,425	1,730,000	381,211	2,111,211	18,103,686	2,033,553	20,137,240
2028	5,969,650	6,810,000	3,212,175	10,022,175	1,785,000	320,827	2,105,827	18,097,652	1,928,091	20,025,744
2029	5,972,488	7,145,000	2,872,600	10,017,600	1,845,000	256,652	2,101,652	18,091,740	1,609,028	19,700,767
2030	5,970,988	7,505,000	2,515,650	10,020,650	1,910,000	188,389	2,098,389	18,090,026	1,595,489	19,685,515
2031	5,969,813	7,930,000	2,129,775	10,059,775	1,975,000	116,067	2,091,067	18,120,655	1,581,950	19,702,604
2032	5,970,000	8,295,000	1,763,263	10,058,263	2,045,000	39,469	2,084,469	18,112,731	1,568,411	19,681,142
2033	5,969,750	6,575,000	1,463,500	8,038,500	-	-	-	14,008,250	1,554,813	15,563,063
2034	5,970,625	6,840,000	1,195,200	8,035,200	-	-	-	14,005,825	1,364,047	15,369,872
2035	-	8,500,000	888,400	9,388,400	-	-	-	9,388,400	-	9,388,400
2036	-	8,755,000	543,300	9,298,300	-	-	-	9,298,300	-	9,298,300
2037	-	9,205,000	184,100	9,389,100	-	-	-	9,389,100	-	9,389,100
Total	$153,268,501	$101,655,000	$69,681,114	$171,336,114	$43,330,000	$9,713,815	$53,043,815	$377,648,430	$53,021,654	$430,670,084

[1] *Based on payments not on accruals.*

[2] *Amounts shown exclude debt service on Refunded Bonds.*

[3] *Includes outstanding SRF loans and refunding SRF loan.*

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.

Board Members

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

Duane R. Miyashiro – Chairman. Mr. Miyashiro was appointed to the Board in August 2011 and has served as its chairman since July 2012. He is a partner and chair of the litigation and dispute resolution group at the Honolulu law firm of Carlsmith Ball LLP. 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. Mr. Miyashiro is a graduate of Maryknoll High School, the University of Hawaii at Manoa, with a bachelor's degree in psychology, and the University of San Francisco School of Law.

Adam Wong – Vice-Chair. Mr. Wong has been a Board member since February 2010 and has served as its vice-chair since July 2014. 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 a bachelor's degree in European studies with a specialization in business administration.

Mahealani Cypher – Member. Ms. Cypher has served as a Board member since February 2011. Currently an active community volunteer, she also provides cultural consultation on Native Hawaiian issues to public and private agencies, and serves as the area's historian and cultural interpreter for historic and cultural properties in the Kane`ohe Bay region. 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 of Water Supply'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.

David C. Hulihee – Member. Mr. Hulihee joined the Board in September 2013. He is the president and chairman of Royal Contracting Company Limited. As its president, he oversees the company's daily operations and has been instrumental in expanding the company's presence in the business community. He is also the president and chief executive officer of Grace Pacific LLC. Mr. Hulihee is a graduate of Iolani School and Syracuse University, where he obtained a bachelor's degree in business administration.

Theresia C. McMurdo – Member. Ms. McMurdo has served as a Board member since February 2010. She is president of Cetra Group, a strategic communications business specializing in communications, public relations, and community relations for a variety of clients in the real estate, education, energy, publications, construction and non-profit sectors. As part of this consulting business, she serves as the executive director of the Kapolei Chamber of Commerce. She is also chief operating officer at Cetra Technology, a rapidly growing, leading edge company that specializes in managed services, business consulting, security services, fraud detection (banking), forensic investigations, VOIP phone systems and website development for small to mid-sized companies and law firms. She was previously with the Estate of James Campbell, the James Campbell Company and its affiliate companies for 21 years, most recently as its vice president of Public Affairs for Kapolei Property Development. Theresia holds a B.A. degree in Journalism and Communication, a Certificate in International Management and an Executive M.B.A. degree, all from the University of Hawaii at Manoa.

Ross M. Higashi – Member, Ex-Officio. Mr. Higashi was appointed Interim Director of the State of Hawaii Department of Transportation on November 1, 2014 by Governor-elect David Ige. He brings 24 years of service in state government, most recently serving as Interim Deputy Director of the Airports Division of the Department of Transportation since May 2014. Previously, he served as Fiscal Management Officer for the Airports Division since 2001.

Ross Sasamura – Member, Ex-Officio. Mr. Sasamura rejoined the Board in January 2013 after having served as an *ex-officio* Board member between 1999 and 2002. He is presently the Director and Chief Engineer of the City and County Department of Facility Maintenance (DFM). The DFM is responsible for the repair and maintenance of city-owned or operated facilities such as Honolulu Hale, Kapolei Hale, Fasi Municipal Building, fire and police stations, satellite city halls, radio transmitter sites, streets and sidewalks, street lights and outdoor park lighting, storm drain and drainage infrastructure, and vehicles and equipment (except those operated by the Board, the Honolulu Police Department and the Honolulu Fire Department). Mr. Sasamura worked for the City and County from 1991 to 2002 as the Assistant Chief of the Automotive Equipment Service Division until he was appointed Director and Chief Engineer of the DFM in 1999. Prior to returning the public service, Mr. Sasamura was a senior Account Executive at Heide & Cook, LLC. He is a mechanical engineer by training and earned his degree from the General Motors Institute in Flint, Michigan. He is also a graduate of Punahou School and serves on the board of the Oahu Fleet Safety Organization.

Principal Officers

The Board consists of 15 Divisions and Support Offices—Water Quality Division, Capital Projects, Communications, Customer Care, Executive Support Office, 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 and Chief Engineer.

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 must 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, Deputy Manager and Chief Engineer and Waterworks Controller:

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, dependable and affordable 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.

Ellen E. Kitamura – Deputy Manager and Chief Engineer. Ms. Kitamura was appointed as the Deputy Manager and Chief Engineer of the Board as of March 16, 2012. In this capacity, she oversees the Department's internal operations, with a focus on the agency's divisions that are directly involved with the source, storage, treatment, transmission, and distribution of water to ensure the sustainability of Oahu's water resources and infrastructure. Ms. Kitamura has been a Board employee since 1982, where she worked her way up the ranks from Civil Engineer I to Civil Engineer VI in the Technical Engineering Projects Branch of the Information Technology Division before being promoted to her current position. Prior to her employment with the Board, Ms. Kitamura worked for two years at a private civil engineering consulting firm and also spent a few years with the Hawaii National Energy Institute at University of Hawaii at Manoa, where she was involved with the start-up of the geothermal project in Puna on the island of Hawaii. She earned her Bachelor of Science degree in Civil Engineering from the University of Hawaii at Manoa and is a licensed Professional Engineer.

Joseph J. Cooper – Waterworks Controller. Mr. Cooper assumed the position of Waterworks Controller on of December 2, 2013 and is responsible for overseeing the financial and accounting functions of the Board. He has 24 years of experience in various companies, including preparing financial statements, federal contracting, and accounting systems. Most recently he was Chief Financial Officer for Archinoetics, LLC, a federal contractor conducting research in wearable sensors for the DoD. Mr. Cooper has a Master of Business Administration from the

University of Washington, a Bachelor of Arts from Rhodes College, and is licensed as a Certified Public Accountant by the state of Washington.

Work Force

The Department employs approximately 482 persons in various managerial, clerical, engineering, information technology, and operational positions. Of these employees, 29 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. The collective bargaining agreements for BU1 and BU13 terminate on June 30, 2017, and the collective bargaining agreements for BU2, BU3 and BU4 terminate on June 30, 2015.

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 167,931 separate accounts and an estimated residential population of 983,429 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, 155,871 are residential (92.8%), representing 60.4% of the total amount received from water sales in Fiscal Year 2014; 11,149 are commercial and industrial (6.7%), representing 38.7% of the total amount received from water sales in Fiscal Year 2014; and 911 are agricultural (0.5%), representing 0.9% of the total amount received from water sales in Fiscal Year 2014. The Department's uncollectible accounts from operating revenues in Fiscal Year 2014 were $555,627 or approximately 0.002% 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 designated 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 196 source pumps. The current State-authorized permitted use of these facilities is 182.6 million gallons per day ("mgd"). The average pumpage, current permitted use, and pump capacity for each water district for Fiscal Year 2014 are listed in the following table:

Table 1
Source Facilities
(Volumes in mgd)

Water District	Average Pumpage	Current Permitted Use	Pump Capacity
Honolulu	68.56	89.63	184.46
Windward	13.68	19.51	27.53
Pearl Harbor	35.04	56.27	134.46
Ewa	8.55	8.22	16.63
Waianae	4.87	--*	10.08
Wahiawa	3.47	4.27	15.12
Waialua-Kahuku	3.81	4.74	9.58
Total Oahu	137.97	182.64	397.86

* *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 171 separate structures built principally of concrete and steel. The aggregate storage capacity is 196 million gallons.

The existing transmission and distribution facilities for potable water consist of approximately 2,114 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 189 booster pumps. There are also 13 granular activated carbon potable water treatment facilities at existing pump stations that treat more than 25 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 2010 through 2014. 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 2010-2014

	Number of Services				
Meter Size	**2010**	**2011**	**2012**	**2013**	**2014**
5/8”..	76,733	76,409	75,764	75,716	74,179
3/4”..	74,742	75,584	77,235	77,315	79,384
1”...	8,129	8,139	8,147	8,148	8,148
1-1/2”	3,209	3,223	3,241	3,244	3,250
2”	4,260	4,286	4,295	4,288	4,293
3”	523	519	497	496	484
4”	741	743	751	748	749
6”	812	819	844	841	832
8”	981	999	1,032	1,037	1,051
10”...	--	--	--	--	--
12”...	11	11	11	11	11
Total	170,141	170,732	171,817	171,844	172,381

Table 3
Number of Services by Customer Class
Fiscal Years 2010-2014

Customer Class	**2010**	**2011**	**2012**	**2013**	**2014**
Residential	154,431	154,810	155,228	155,205	155,871
Commercial/Industrial	11,109	11,149	11,205	11,225	11,149
Agricultural	882	885	901	905	911
Total	166,422	166,844	167,334	167,335	167,931

Table 4
Water Sales and Revenues by Customer Class
Fiscal Years 2010-2014

	2010	**2011**	**2012**	**2013**	**2014**
Water Sales (thousand gallons)					
Residential	29,507,147	29,049,566	27,840,756	28,792,498	28,495,629
Commercial	18,019,161	17,700,396	17,902,100	18,172,833	18,874,745
Industrial	3,238,596	3,119,659	3,196,982	2,985,887	3,162,587
Agricultural	1,241,985	1,172,811	1,280,844	1,502,086	1,261,099
Total	52,006,889	51,042,432	50,220,682	51,453,304	51,794,060
Water Revenues					
Residential	$ 87,931,530	$ 88,039,960	$ 90,835,569	$107,561,613	$115,859,361
Commercial	52,961,083	51,482,954	57,826,623	64,695,188	68,694,272
Industrial	5,951,237	5,203,028	5,441,082	3,107,139	5,406,579
Agricultural	1,600,435	1,561,774	1,716,122	1,952,192	1,770,591
Total	$148,444,285	$146,287,716	$155,819,396	$177,316,132	$191,730,803

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 2009-2013

Station	2009	2010	2011	2012	2013	10-Year Average (2004-2013)
Beretania Station	15	22	25	17	24	25
Haiku	92	76	82	66	73	87
Kaimuki Station	7	14	17	9	23	17
Upper Kalihi Valley	110	110	108	83	123	114
Kalihi Shaft	23	31	43	25	40	38
Keeaumoku	21	40	35	22	30	32
Lower Luakaha	89	103	105	90	107	108
Moanalua	56	73	82	56	73	78
Nuuanu Reservoir No. 4	91	83	94	81	112	99
Nuuanu Reservoir No. 5	68	84	82	68	72	81
Pacific Heights	37	52	56	47	53	57
Palolo Valley	97	108	108	73	72	106
Pauoa Flats	127	139	142	128	131	145
Waihee Valley	78	81	86	62	94	89
Wilhelmina Rise	32	16	38	32	32	41

Selected Statistics

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

Table 6
Selected Statistics of the Water System
Fiscal Years 2010-2014

	2010	2011	2012	2013	2014
Estimated Population*	948,937	956,168	963,607	976,372	983,429
Number of Meters Billed	170,141	170,732	171,817	171,844	172,381
Est. Persons Per Meter	5.58	5.60	5.61	5.68	5.70
Annual Pumpage (Gallons)	53,839,243,000	50,764,937,000	50,909,512,000	51,546,030,000	50,359,780,000
Annual Water Billed (Gallons)	52,006,889,000	51,042,432,000	50,220,682,000	51,453,304,000	51,794,060,000
Average Daily Pumpage (Gallons)	147,505,000	139,082,000	139,097,000	141,222,000	137,972,000
Peak Day Pumpage (Gallons) (Single Day)	170,850,000	157,050,000	151,300,000	168,222,000	161,400,000
Average Daily Production Per Meter (Gallons)	867	815	810	822	800
Total Capacity of Well Pumping (Gallons Per Day)	399,857,000	399,857,000	399,153,600	399,153,600	397,857,000
Storage Capacity (Gallons)	181,970,000	181,970,000	187,970,000	190,530,000	190,530,000
Number of Miles of Lines	2,080	2,095	2,101	2,106	2,114

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

Operation and Maintenance

The Board believes 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 2015, $25.2 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 $36 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 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 8% in Fiscal Year 2012. 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 four years to other more immediate uses.

Oahu's groundwater sustainable yield is 407 mgd, of which 294 mgd was permitted in 2013. The current authorized use for the Board is 182.6 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.

In January 2014, an estimated 27,000 gallons of jet fuel leaked from several small holes in an underground storage tank at the U.S. Navy's Red Hill Bulk Fuel Storage Facility. Following reports of the leak, the Board found no signs of contamination in water wells at the nearby Halawa shaft and Moanalua shaft, which provide about 25% of the drinking water for urban Honolulu, and laboratory tests conducted by the Navy indicate that drinking water sources in the vicinity continue to meet SDWA and State standards. The State Legislature created a task force to study the effects of the release and to consider response strategies to mitigate the effects of any future leaks. The task force is required to report its findings and recommendations, including any proposed legislation, to the Legislature no later than 20 days before the beginning of its 2015 regular session. The Board will continue to monitor the situation and take action as appropriate.

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 16.5% in the per capita consumption from 188 gallons per capita per day ("gpcd") in 1990 to 157 gpcd in 2013.

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

The Board has adopted a five-year capital improvement program for Fiscal Years 2015 through 2019 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 following discussion presents certain summary information regarding the Board's capital improvement program. The Board regularly updates its capital improvement program, typically in December of each year, which may cause the figures presented in this discussion to change.

The capital improvement program for Fiscal Years 2015 through 2019 is estimated to cost approximately $370 million. The new projects include approximately $206 million of pipeline projects and approximately $158 million in facilities projects, as set forth on the following table:

Table 7
Capital Improvement Program
New Projects Funded
Fiscal Years 2015-2019
(Dollars in Thousands)

Project Description	2015	2016	2017	2018	2019	Total
Potable Water Projects						
General	$24,005	$21,920	$16,600	$12,350	$15,340	$ 90,215
Source	14,205	24,670	8,200	10,450	3,050	60,575
Storage	150	200	250	800	2,500	3,900
Transmission	30,670	31,960	33,220	57,020	49,200	202,070
Treatment	5,100	1,600	600	600	600	8,500
Subtotal	$74,130	$80,350	$58,870	$81,220	$70,690	$365,260
Non-Potable Water Projects	--	--	--	--	--	--
Recycled Water Projects	100	--	450	--	4,100	4,650
Total Estimated Costs	$74,230	$80,350	$59,320	$81,220	$74,790	$369,910

In addition to these new projects, the capital improvement program includes an additional $88 million of projects already in progress that are scheduled for completion during this five-year period, for a total of approximately $457.9 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 2015-2019 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 $349 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
Projected Expenditures
Fiscal Years 2015-2019
(Dollars in Thousands)

Fiscal Year	Program Expenditures
2015	$ 61,004
2016	68,121
2017	74,012
2018	70,748
2019	75,491
Total:	$349,376

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, 2014, are set forth in the table below.

Table 9
Ten Largest Users
(as of June 30, 2014)

Name	Annual Water Sales (1,000s Gals.)	Estimated Revenues	Percentage of Total Water Sales
City and County of Honolulu	3,507,483	$10,781,186	5.62%
State of Hawaii	3,104,822	12,437,154	6.49
United States Government	1,224,772	4,664,041	2.43
Chevron USA (refinery)	544,085	2,055,412	1.07
Hilton Hotels	339,522	1,398,745	0.73
GGP Ala Moana LLC	208,271	851,194	0.44
Tesoro Hawaii (refinery)	186,233	939,149	0.49
Sheraton Waikiki Hotels	175,423	722,045	0.38
Disney Vacation Resort & Spa – Ko'Olina	156,840	577,659	0.30
Kalaeloa Partners LP (independent power producer)	150,113	781,091	0.41
Total:	9,597,564	$35,207,676	18.36%

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, the second 9.65% rate increase took effect on July 1, 2012, and the subsequent 9.65% rate increases are scheduled to take effect on July 1 of Fiscal Years 2014 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.

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 are included in the Board's schedule of rates and charges for Fiscal Years 2012 through 2016.

Current Rate Schedules

The following table describes the base rates in effect as of July 1, 2014 (effective through June 30, 2015) and the increased rates that will become effective on July 1, 2015. See "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	**Currently Effective**	**Effective July 1, 2015**
Billing charge each time a bill is rendered:	$8.44	$9.26
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	$4.03	$4.42
Block 2 (Gallons) 13,001 to 30,000 or any part thereof	4.86	5.33
Block 3 (Gallons) Over 30,000	7.24	7.94
Multi-Family Residential		
Monthly Charge per Unit		
Block 1 (Gallons) First 9,000 or any part thereof	$4.03	$4.42
Block 2 (Gallons) 9,001 to 22,000 or any part thereof	4.86	5.33
Block 3 (Gallons) Over 22,000	7.24	7.94
Non-Residential All usage	4.53	4.96
Agricultural		
Monthly Charge Per Account		
Block 1 (Gallons) First 13,000 or any part thereof	$4.03	$4.42
Block 2 (Gallons) Over 13,000	1.72	1.89
Non-Potable All usage	2.26	2.47

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. 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 2010-2014

Fiscal Year	Aggregate Dollar Amount of Uncollectible Accounts	Percentage of Total Operating Revenues
2010	$297,332	0.20%
2011	311,032	0.21
2012	268,089	0.17
2013	200,055	0.11
2014	555,628	0.29

Water Rates in the Four Counties

The following table shows the average monthly residential water bills in the four counties in the State based on rates in effect as of July 1, 2014. 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	$86.11
Hawaii County	$65.40
Maui County	$55.80
City and County of Honolulu	$60.83

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 2010-2014

Fiscal Year	Resource	Transmission	Storage	Total
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
2012	2,565,000	1,106,000	1,366,000	5,037,000
2013	3,730,000	1,754,000	2,970,000	8,454,000
2014	3,463,000	1,710,000	2,184,000	7,357,000

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

As of September 30, 2014 the Outstanding Bonds under the Resolution consisted of $213,805,000 of Series 2006A Bonds and Series 2006B Bonds issued July 7, 2006, of which $180,530,000 remain outstanding, and $85,195,000 of Series 2012A Bonds issued March 29, 2012, of which $81,655,000 remain outstanding. The aggregate outstanding amount of Bonds issued under the Resolution as of September 30, 2014 was $262,185,000.

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 $27,459,000 of outstanding State revolving fund loans as of September 30, 2014, incurred as Subordinate Obligations, and approximately $1,562,000 of 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. The Board currently has no outstanding private placements or bank debt secured by revenues of the Water System.

The Resolution provides, as a condition to the incurrence of Subordinate Obligations (including State revolving fund loans), that the resolution, indenture or governing instrument for such Subordinate Obligations must contain a provision to the effect that, in the absence of bankruptcy, insolvency or other similar proceedings with respect to the Board or its property, if such Subordinate Obligations are declared due and payable prior to maturity as a result of an event of default or otherwise, the holders of Outstanding Bonds issued under the Resolution would be entitled to receive payment in full of all principal and interest on their Bonds before the holders of the Subordinate Obligations would be entitled to receive any accelerated payment of principal or interest on such Subordinate Obligations from the Net Revenues or any funds held under the Resolution. Resolution 741, 2004 of the Board, which provides for the incurrence of State revolving fund loans as Subordinate Obligations, contains such a provision. The approximately $27,459,000 of outstanding State revolving fund loans referenced above are the only Subordinate Obligations currently outstanding.

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.

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" or "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. This section contains certain information relating to the System. The information contained in this section is primarily derived from information produced by the System, its independent accountant and its actuary. The Department has not independently verified the information provided by the System, its independent accountant and its actuary, and makes no representations nor expresses any opinion as to the accuracy of such information. The comprehensive annual financial report of the System and most recent valuation report of the System may be obtained by contacting the System. The comprehensive annual financial reports of the System are also available on the State's website at http://portal.ehawaii.gov/, and other information about the System are available on the System's website at http://ers.ehawaii.gov/. Such documents and other information are not incorporated herein by reference.

The System uses a variety of assumptions to calculate the actuarial accrued liability, actuarial value of assets and other actuarial calculations and valuations of the System. No assurance can be given that any of the assumptions underlying such calculations and valuations (including, but not limited to, the current actuarial assumptions adopted by the System's Board of Trustees, the System's benefit structure or the actuarial method used by the System) will reflect the actual results experienced by the System. Variances between the assumptions and actual results may cause an increase or decrease in, among other things, the System's actuarial value of assets, actuarial accrued liability, unfunded actuarial accrued liability or funded ratio. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions (including, but not limited to, the current actuarial assumptions, benefit structure or actuarial method used by the System), one or more of which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans. See "—*General Information*" and "— *Actuarial Valuation*" herein for more information on the actuarial assumptions used by the System.

Much of the disclosure set forth in this "Employee Benefits" section is based on the Report to the Board of Trustees on the 88th Annual Actuarial Valuation for the Year Ended June 30, 2013 (the "2013 Valuation Report"), which is the most recent valuation report of the System. The information presented in the 2013 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in January 2011. As described more fully under "—*General Information*" below, a revised benefit structure for new members was enacted through statute. In addition, future employer contribution rates were enacted through statute. This is the first valuation with new members under the new tier of benefits and member contribution rates. However, the liability for this group of employees represents just a small fraction of the total liabilities of the System. Included in the 2013 Valuation Report are projections showing the long-term impact of both the increased employer contributions and the change in benefits for employees first hired after June 30, 2012.

In June 2012, the Governmental Accounting Standards Board ("GASB") voted to approve two new statements relating to the accounting and financial reporting for public employee pension plans by state and local governments. Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), is effective for reporting periods beginning after June 15, 2013. GASB 67 requires enhanced pension disclosures in notes and required supplementary information for financial reports of pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), is effective for fiscal years beginning after June 15, 2014. GASB 68 will require governments providing defined benefit pension plans to recognize pension obligations as balance sheet liabilities (as opposed to footnote disclosures), require more immediate recognition of certain changes in liabilities, require use of the entry age normal actuarial cost method (currently employed by the State Retirement System) for reporting purposes, and limit the smoothing of differences between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required for valuing pension liabilities. In addition, employers participating in cost-sharing, multiple employer defined benefit plans will be required to report their proportionate shares of the collective net pension liability and expense for such plans.

GASB 67 and GASB 68 could substantially change the measurement of pension expenses and liabilities in the financial reports of the State Retirement System and the Department, and the full impact of these changes cannot be predicted at this time. The System is in the process of implementing GASB 67 for the fiscal year ended June 30, 2014. At this time, the System does not expect the net pension liability reported under GASB 67 to be significantly different from the unfunded actuarial accrued liability that would have been reported under the prior accounting standards.

The Department expects to implement GASB 68 beginning with the fiscal year ending June 30, 2015. Like most public employers, the Department will be required to reflect pension liabilities directly on its Statement of Net Position, which is expected to result in a reduction in the Department's reported net assets. The amount of the System's net pension liability that will be allocated to the Department is uncertain at this time.

General Information

The System began operation on January 1, 1926. The System is a cost-sharing, multiple employer defined benefit pension plan. The actuarial information presented herein is provided for all employers of the System in total. The System's plan year runs from July 1 of each year through the following June 30. The System covers all regular employees of the State and each of its counties, including judges and elected officials. As it is a cost-sharing plan, the System does not allocate its liabilities among participating employers. The Department's contribution to the System for the last five Fiscal Years are set forth below:

Fiscal Year (June 30)	**Department Contribution**
2010	$ 8,773,000
2011	12,339,000
2012	11,755,000
2013	8,232,550
2014	16,482,667

The statutory provisions of HRS Chapter 88 govern the operation of the System. Responsibility for the general administration of the System is vested in a Board of Trustees, with certain areas of administrative control being vested in the Department of Budget and Finance. The Board of Trustees consists of eight members: the Director of Finance of the State, ex officio; four members of the System (two general employees, one teacher, and one retiree) who are elected by the members and retirees of the System; and three citizens of the State (one of whom shall be an officer of a bank authorized to do business in the State, or a person of similar experience) who are appointed by the Governor and may not be employees of the State or any county. All contributions, benefits and eligibility requirements are established by statute, under HRS Chapter 88, and may only be amended by legislative action.

Prior to 1984, the System consisted of only a contributory plan. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan provides for reduced benefits and covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan. The minimum service required for retirement eligibility is five years of credited service under the contributory plan and ten years of credited service under the noncontributory plan. Both the contributory and noncontributory plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (the "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 or the three highest paid years of service, excluding the vacation payment (whichever is higher). The AFC for members hired after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new defined benefit contributory plan (the "Hybrid Plan") was established pursuant to Act 179, SLH 2004. Members in the Hybrid Plan are eligible for retirement with full benefits at age 62 with five years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the Hybrid Plan. Most new employees hired from July 1, 2006 were required to join the Hybrid Plan.

In December 2010, the System's actuary completed an Actuarial Experience Study for the five-year period ended June 30, 2010 (the "2010 Experience Study"). In Fiscal Year 2011, based in part on the results of the Experience Study, the Legislature acted to limit the growth of the State's pension liabilities by passing Act 163, SLH 2011. This Act, effective July 1, 2012, enacts certain changes to the funding of the System and the benefit structure for new members in all plans. Funding changes include increasing the statutorily required employer contribution rates (see "*—Funded Status*" below). Benefit changes for new members include increasing the age and service requirements for retirement eligibility, reducing the retirement benefit multiplier and reducing the interest rate credited to employee contributions to 2%. The change in the interest rate credited to employee contributions to 2% is for new members in the Hybrid Plan and Contributory Plan hired on or after July 1, 2011. All other benefit changes are effective for new members hired on or after July 1, 2012. Act 163, SLH 2011, also reduced the investment yield rate assumption for Fiscal Year 2011 from 8% to 7.75% and gave authority to the Board of Trustees to adopt all assumptions to be used for actuarial valuations of the System, including the assumed investment yield rate for subsequent fiscal years. To better reflect the recent actual experience of the System, the Board of Trustees adopted the assumption recommendations set forth in the 2010 Experience Study, including continuing the investment yield rate assumption of 7.75%. During its September 23, 2014 meeting, the Board of Trustees reviewed actuarial scenarios based on the System's short- and long-term investment return risk and approved a three-year plan for the phased-in reduction of the investment yield rate from 7.75% to 7.50% beginning with the June 30, 2015 valuation of the System, as follows: 7.65% for the June 30, 2015 valuation, 7.55% for the June 30, 2016 valuation and 7.50% for the June 30, 2017 valuation, respectively. The Legislature also enacted Act 152 and 153, SLH 2012, effective June 30, 2012 and July 1, 2012, respectively, to define compensation for retirement purposes as normal periodic payments excluding overtime, supplemental payments, bonuses and other differentials, and to assess employers annually for all retiree pension costs attributable to non-base pay during the last years of retirement.

In Fiscal Year 2011, the Legislature acted to improve and protect the System's funded status by placing a moratorium on the enhancement of benefits. Act 29, SLH 2011, provides that there shall be no benefit enhancement for any group of members until the actuarial value of the System's assets is 100 percent of the System's actuarial accrued liability.

As of March 31, 2013, the contributory plan covered 6,408 active employees or 10% of all active members of the System, the noncontributory plan covered approximately 17,941 active employees or 27%, and the Hybrid Plan covered 41,877 active members or 63%. The Hybrid Plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join this plan.

As of June 30, 2013, the System's membership comprised approximately 66,226 active employees, 7,312 inactive vested members and 41,812 pensioners and beneficiaries. The following table shows the number of active members, inactive members and retirees and beneficiaries of the System as of June 30, 2012 and 2013 and as of March 31, 2014:

Table 14
State Retirement System Membership

Category	June 30, 2012	June 30, 2013	March 31, 2014
Active	65,599	66,226	67,212
Inactive	6,909	7,312	8,167
Retirees and beneficiaries	40,774	41,812	43,087
Total	**113,282**	**115,350**	**118,466**

Funded Status

Based on the actuarial valuation as of June 30, 2013, the System's underfunded status has increased, compared to the prior year. However, the increase was less than anticipated due to an offsetting liability experience gain which was caused primarily by lower than expected salary increases. The unfunded actuarial accrued liability (the "UAAL") as of June 30, 2013 was $8.49 billion. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the amortization of the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 24.0% for police and fire employees and 16.5% for all other employees, the future contribution rates established in statute (see "—*Funding Policy*" below), and the new benefit tier for employees hired after June 30, 2012 the actuary has determined that the remaining amortization period is 28 years. Because this period is within 30 years (the maximum period specified by HRS Section 88-122(e)(1)), the financing objectives of the System are currently being realized. HRS Section 88-122(e)(1) provides that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. See "—*Funding Policy*" below for information on increases in the employer contribution rates and benefits changes.

Funding Policy

Prior to fiscal year 2006, the System was funded on an actuarial reserve basis. Actuarial valuations were prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In earlier years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the System. Act 327, SLH 1997, amended Section 88-107, HRS, so that, beginning with the June 30, 1997 valuation, the System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, SLH 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. For those two valuations, the investment earnings in excess of a 10% actuarial return was to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122, HRS, as amended by Act 147, SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund was comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement was determined in the aggregate for all employers in the System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation was paid during the third fiscal year following the valuation date, *e.g*., the contribution requirement derived from the June 30, 1998 valuation was paid into the System during the fiscal year ended June 30, 2001. The actuarial cost method used to calculate employer contributions was changed in 1997 by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions were 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 System.

Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation (15.75% for their police officers and firefighters and 13.75% for other employees) effective July 1, 2005. Pursuant to Act 256, SLH 2007, employer contributions beginning July 1, 2008 increased to 19.70% for police officers and firefighters and 15.00% for all others employees. As of June 30, 2010, the System's actuary determined that the remaining period required to amortize the UAAL was 41.3 years, which was greater than the maximum of 30 years specified by HRS Section 88-122(e)(1). As a result, and pursuant to the recommendations of the 2010 Experience Study, the Board of Trustees requested an increase in the statutory employer contribution rates to bring the funding period down to 30 years. In response, the Legislature enacted Act 163, SLH 2011, pursuant to which, effective July 1, 2012, employer contribution requirements will gradually increase as follows:

Table 15
State Retirement System Employer Contribution Requirements

Employer Contribution effective starting July 1	Police Officers, Firefighters, and Correction Officers (% of total payroll)	Other Employees (% of total payroll)
2012	22.0	15.5
2013	23.0	16.0
2014	24.0	16.5
2015	25.0	17.0

Under the contributory plan, police officers, firefighters, and corrections officers are required to contribute 12.2% of their salary to the plan and most other covered employees are required to contribute 7.8% of their salary. Under the Hybrid Plan, covered employees are generally required to contribute 6.0% of their salary to the plan, with sewer workers in specified classifications, water safety officers and emergency medical technicians required to contribute 9.75% of their salary. Effective July 1, 2012, contribution rates for newly hired employees covered under the contributory and Hybrid Plan increased by 2% pursuant to Act 163, SLH 2011, such that the corresponding contribution rates for new employees as discussed in this paragraph will be 14.2%, 9.8%, 8.0% and 11.75%, respectively. Employees covered under the noncontributory plan do not make contributions.

Actuarial Methods

The System's actuary uses the entry age normal cost method. The most recent valuation was performed for the year ended June 30, 2013.

Since the State statutes governing the System establish the current employee and employer contribution rates, the actuarial valuation determines the number of years required to amortize (or fund) the UAAL. For the June 30, 2013 valuation, this determination was made using an open group projection to reflect both the increasing contribution rates and the changes in benefits for members hired after June 30, 2012.

Because of this amortization procedure, any change in the unfunded actuarial accrued liability due to (i) actuarial gains and losses, (ii) changes in actuarial assumptions or (iii) amendments, affects the funding period.

On an aggregate basis with regards to the contributory, the Hybrid, and the noncontributory plans, the total normal cost for benefits provided by the System for the fiscal year beginning July 1, 2013 was 11.02% of payroll, which was 11.00% of payroll less than the total contributions required by law (16.76% from employers plus 5.26% in the aggregate from employees). Since only 5.76% of the employers' 16.76% contribution is required to meet the normal cost (5.26% comes from the employee contribution), it is intended that the remaining 11.00% of payroll will be used to amortize any unfunded actuarial accrued liabilities over a period of years in the future, assuming that total payroll increases by 3.50% per year. Due to the changes enacted in 2011 (increases in the employer contribution rates and new benefits and contribution rates for members hired after June 30, 2012), the percentage of payroll available to amortize the unfunded actuarial liabilities is expected to increase each year for the foreseeable future.

Actuarial Valuation

The actuarial value of assets is equal to the market value, adjusted for a four year phase-in of actual investment return in excess of or below expected investment return. The actual return is calculated net of investment and administrative expenses, and the expected investment return is equal to the assumed investment return rate multiplied by the prior year's market value of assets, adjusted for contributions, benefits paid, and refunds. The actuarial value of assets has been based on a four-year smoothed valuation that recognizes the excess or shortfall of investment income over or under the actuarial investment yield rate assumption. The actuarial asset valuation method is intended to smooth out year-to-year fluctuations in the market return. The excess or shortfall in the actual return during the year, compared to the investment yield rate assumption, is spread over this valuation and the next three valuations.

The System's actuary uses certain assumptions (including rates of salary increase, probabilities of retirement, termination, death and disability, and an investment yield rate assumption) to determine the amount that an employer must contribute in a given year to provide sufficient funds to the System to pay benefits when due. Prior to fiscal year 2012, HRS Section 88-122(b) provided for the Board of Trustees to adopt the assumptions to be used by the System except the investment yield rate, which was set by the Legislature. Act 163, SLH 2011, set the investment yield rate at 7.75% for fiscal year 2011 but also amended HRS Section 88-122(b) to allow the Board of Trustees to establish, for subsequent fiscal years, all assumptions to be used by the System, including the investment yield rate assumption. The Board of Trustees periodically evaluates and revises the assumptions used by the System for actuarial valuations, including by commissioning experience studies to evaluate the actuarial assumptions to be used by the System. The current assumptions, including the 7.75% investment yield rate, were adopted by the System's Board of Trustees based on the recommendations of the System's actuary in the most recent experience study, the 2010 Experience Study. These assumptions, funding changes and benefit structure are reflected in the 2013 Valuation Report. The impact of the phased-in reduction of the investment yield rate from 7.75% to 7.50%, which also was based on current actuarial assumptions, cannot be determined at this time, but will be reflected beginning with the June 30, 2015 Valuation Report, as follows: 7.65% for the June 30, 2015 valuation, 7.55% for the June 30, 2016 valuation and 7.50% for the June 30, 2017 valuation, respectively. Also, a new experience study for the System will be conducted in 2015.

The following table sets forth the schedule of funding progress of the System for the ten most recent actuarial valuation dates.

Table 16
Schedule of Funding Progress
(Dollar amounts in millions)

June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b)-(a)	Funded Ratio (a)/(b)	Payroll (c)	UAAL as a Percentage of Payroll ((b)-(a))/(c)
2004	$ 8,791.1	$12,271.3	$3,474.2	71.7%	2,865.1	121.3%
2005	8,914.8	12,986.0	4,071.1	68.6%	3,041.1	133.9%
2006*	9,529.4	14,661.4	5,132.0	65.0%	3,238.3	158.5%
2007	10,589.8	15,696.5	5,106.8	67.5%	3,507.0	145.6%
2008	11,381.0	16,549.1	5,168.1	68.8%	3,782.1	136.6%
2009	11,400.1	17,636.4	6,236.3	64.6%	4,030.1	154.7%
2010	11,345.6	18,483.7	7,138.1	61.4%	3,895.7	183.2%
2011**	11,942.8	20,096.9	8,154.2	59.4%	3,916.0	208.2%
2012	12,242.5	20,683.4	8,440.9	59.2%	3,890.0	217.0%
2013	12,748.8	21,243.7	8,494.9	60.0%	3,906.7	217.4%

* *Assumption changes and new Hybrid Plan effective June 30, 2006.*

** *Assumption changes effective June 30, 2011.*

Source: The 2013 Valuation Report.

The total assets of the System on a market value basis amounted to approximately $11.6 billion as of June 30, 2011, $11.3 billion as of June 30, 2012, $12.4 billion as of June 30, 2013 and $14.1 billion as of June 30, 2014 (unaudited). Actuarial certification of assets as of June 30, 2012 was $12.2 billion (See "— *Summary of*

Actuarial Certification Statement" below). The June 30, 2013 actuarial certification of assets was $12.7 billion, and its unfunded actuarial accrued liability was $8.5 billion. Since the System is a cost-sharing, multiple employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties. The following table shows the normal cost as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for fiscal years 2012 and 2013:

Table 17
Normal Cost

	June 30					
	2013			2012		
	Police and Firefighters	Other Employees	All Employees	Police and Firefighters	Other Employees	All Employees
Normal cost as % of payroll	19.84%	9.91%	11.02%	20.18%	9.88%	11.05%
Employee contribution rate	12.24%	4.38%	5.26%	12.20%	4.19%	5.08%
Effective employer normal cost rate	7.60%	5.53%	5.76%	7.98%	5.69%	5.97%

Source: The 2013 Valuation Report.

The following table shows a comparison of the actuarial value of assets ("AVA") to the market values, the ratio of the AVA to market value and the funded ratio based on AVA compared to funded ratio based on market value of assets, for the last two valuation dates:

Table 18
Asset Values

	June 30, 2013	June 30, 2012
AVA	$12,748.8 million	$12,242.5 million
Market Value of Assets	$12,357.8 million	$11,285.9 million
Market Value as Percentage of AVA	96.9%	92.2%
Funded Ratio (AVA)	60.0%	59.2%
Funded Ratio (Market Value)	58.2%	54.6%

Source: The 2013 Valuation Report.

The following table shows the annual required contributions, actual contributions and the percentage of actuarially required contribution that has been funded as of the last 10 valuation dates. Employer contribution rates are set by the statute (see above) and, accordingly, may be greater or less than the ARC:

Table 19
Schedule of Employer Contributions
(Dollar amounts in thousands)

June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2004	$235,686	$235,686	100.0%
2005	328,717	328,717	100.0%
2006*	423,446	423,446	100.0%
2007	476,754	454,494	95.3%
2008	510,727	488,770	95.7%
2009	526,538	578,635	109.9%
2010	536,237	547,613	102.1%
2011	582,535	534,858	91.8%
2012	654,755	548,353	83.7%
2013	667,142	581,447	87.2%

* *Effective July 1, 2005 the required contributions are based on contribution rates and not specific dollar amounts.*

Source: The 2013 Valuation Report.

Asset Allocation

The following table shows the target and actual asset allocation of the System as of June 30, 2013:

Table 20
Asset Allocation
(as of June 30, 2013)

	Actual Allocation		Target Allocation		Allocation
Asset Type	**Amount ($mm)**	**Percentage**	**Amount ($mm)**	**Percentage**	**Difference**
Domestic Equity	$4,357.9	35.4%	$4,017.0	32.6%	2.8%
Non-US Equity	2,980.2	24.2%	3,203.8	26.0%	-1.8%
Fixed Income	2,268.2	18.4%	2,587.7	21.0%	-2.6%
Real Estate	858.7	7.0%	862.6	7.0%	0.0%
Private Equity	464.9	3.8%	468.2	3.8%	0.0%
Real Return	574.2	4.7%	566.8	4.6%	0.1%
Covered Calls	582.9	4.7%	616.1	5.0%	-0.3%
Other	235.2	1.9%	0.0	0.0%	1.9%
Total	**$12,322.2**	**100.0%**	**$12,386.3**	**100.0%**	

Source: Valuations provided by Northern Trust – 2013; values unaudited.

As of June 30, 2014, the System reported an asset allocation of 36.2% domestic equity, 25.5% non-U.S. equity, 17.1% fixed income, 6.4% real estate, 5.7% covered calls, 4.3% real return, 4.0% private equity, and the balance in other assets. In August 2014, the Board of Trustees of the System approved the adoption of a change in its asset allocation policy from the current asset-class policy to a new risk-based asset allocation framework within the categories of Broad Growth, Principal Protection, Real Estate and Real Return and Other. The new policy is effective as of October 1, 2014.

Employer Contribution Rate

The schedule which follows shows the total actuarially determined employer contribution rate for all employees based on the last six annual actuarial valuations.

Table 21
Employer Contribution Rates

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)*	Funding Period (Years)
2008	15.46	22.6
2009	15.47	28.2
2010	15.49	41.3
2011	15.52	25.0
2012	16.11	30.0
2013	16.76	28.0

* *Reflects Act 181, SLH 2004, which amended Sections 88-105, 88-122, 88-123, 88-124, 88-125, 88-126, Hawaii Revised Statutes, and Act 163, SLH 2011.*

The increases in Fiscal Years 2009 and 2010 were from the recognition of the actuarial asset loss from the significant decline in the financial markets during Fiscal Year 2009. The decrease in the funding period in 2011 is a reflection of Act 163, SLH 2011, which was enacted to raise the employer contribution rates over the next several years and to provide for smaller benefits for employees hired after June 30, 2012, to bring the funding period in line with the 30-year statutory requirement. The increase in the funding period in 2012 reflects the final recognition of the investment losses from fiscal year 2009. It also reflects the significant changes due to Act 163 and the System's open group projection policy which assumes that the number of active members will remain constant and there will be no actuarial gains or losses on liabilities or investments. The decrease in the funding period in 2013 was due to liability gains from positive experience versus the actuarial assumptions.

Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2013 and 2012 is set forth below:

Table 22
Employees' Retirement System of the State Of Hawaii
Summary of Actuarial Certification as of June 30, 2013 and 2012
(Includes all counties)

ASSETS	2013	2012
Total current assets	$12,748,828,110	$12,242,493,808
Present value of future employee contributions	1,679,827,365	1,620,818,198
Present value of future employer normal cost contributions	1,737,037,958	1,813,266,375
Unfunded actuarial accrued liability	8,494,916,267	8,440,909,010
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	$24,660,609,700	$24,117,487,391
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	$11,182,535,047	$10,707,191,513
Present value of future benefits to active employees and inactive members	13,478,074,653	13,410,295,878
TOTAL LIABILITIES	$24,660,609,700	$24,117,487,391

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2013, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $8.495 billion. The System's funded ratios – assets divided by the actuarial accrued liability – increased during Fiscal Year 2013 as shown below:

<u>Table 23</u>
Funded Ratios

June 30, 2013	June 30, 2012
60.0%	59.2%

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 May 2014, the State's independent actuarial consultant estimated the actuarial accrued liabilities and annual OPEB costs under GASB 43 and 45 for the State and the counties for the Fiscal Year ending June 30, 2013. These estimates were based on the actuarial valuation as of July 1, 2013. Assuming full prefunding of obligations, the actuarial accrued liability for Trust Fund OPEBs for the Department was estimated to be approximately $122,886,000 with full prefunding for such period. The corresponding annual required contribution is estimated to be approximately $8,528,000 million for Fiscal Year 2015 with full prefunding, as compared to $8,977,000 million for Fiscal Year 2014. The annual OPEB cost is estimated at $8,981,000 million for Fiscal Year 2014, as compared to $8,681,000 million for Fiscal Year 2013.

Contributions to the Trust Fund to prefund the Department's OPEB obligations are determined on a year-by-year basis. For Fiscal Years 2010 through 2014, the Department has contributed to the Trust Fund prefunding in the amounts of $8,773,000, $12,339,000, $11,755,000, $8,232,550 and $16,022,217, respectively. The Department intends to fully prefund its estimated OPEB obligations for the fiscal year ending June 30, 2015.

Act 268, Session Laws of Hawaii 2013, established a separate trust fund for public employer contributions to prefund OPEB costs. The Act requires all public employers within the State, including the Department, to contribute annually to the trust fund the full amount of their actuarily-determined required contributions beginning in Fiscal Year 2019, and obligates the State finance director to use the transient accommodations tax and other revenues collected by the State on behalf of a public employer to supplement deficient employer contributions. As noted above, the Department has fully prefunded its OPEB obligations consistently for several years.

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, 2010 through 2014. The information presented in the table is based on the Board's audited financial statements for Fiscal Years 2010-2014.

Attached as Appendix B hereto are the Board's audited financial statements for the Fiscal Years ended June 30, 2013 and 2014. Reference is made to such Appendix for further information regarding the Board's financial condition as of June 30, 2014 and its results of operations for the Fiscal Year then ended.

Table 24
Historical Revenues, Expenses and Debt Service Coverage
Fiscal Years 2010-2014

	2010	2011	2012	2013	2014
Operating revenues:					
Water sales	$148,444,285	$146,287,716	$155,819,396	$177,316,132	$191,593,726
Other operating revenues	5,654,491	4,308,910	4,136,502	4,527,984	3,776,974
Total operating revenues:	$154,098,776	$150,596,626	$159,955,898	$181,844,116	$195,370,700
Operating expenses (excluding depreciation):					
Administrative and general	$ 40,363,049	$ 42,137,019	$ 39,392,068	$ 43,408,706	$ 48,589,194
Maintenance	13,266,809	13,832,056	17,286,240	18,156,287	14,307,033
Power and pumping	27,967,429	28,631,436	33,202,387	39,248,278	35,577,725
CASE fees	3,000,000	3,300,000	3,300,000	3,300,000	3,300,000
Transmission and distribution	13,445,945	13,691,498	12,151,536	16,620,388	14,589,465
Customer accounting and collection*	3,052,034	2,877,189	2,838,379	4,408,308	9,790,050
Water reclamation	4,685,011	4,794,146	6,318,530	4,908,661	5,846,107
Water treatment	43,013	--	--	--	--
Source of supply	44,541	37,368	267,921	41,265	64,064
Total operating expenses:	$105,867,831	$109,300,712	$114,757,061	$130,091,893	$132,063,638
Operating income:	$ 48,230,945	$ 41,295,914	$ 45,198,837	$ 51,752,223	$ 63,307,062
Nonoperating revenues:					
Interest income	$ 3,107,953	$ 3,929,911	$ 2,902,587	$ 2,528,333	$ 2,148,814
Total nonoperating revenues:	$ 3,107,953	$ 3,929,911	$ 2,902,587	$ 2,528,333	$ 2,148,814
Net revenues:	$ 51,338,898	$ 45,225,825	$ 48,101,424	$ 54,280,556	$ 65,455,876
Annual debt service:**	$ 20,919,399	$ 20,923,074	$ 20,726,065	$ 20,504,052	$ 20,513,302
Debt Service Coverage:	2.45	2.16	2.32	2.65	3.19

* *The Board began billing residential customers on a monthly basis effective January 22, 2013. Consequently, water sales revenues and customer accounting and collection costs are projected to increase at that time.*

** *The Board's Fiscal Year begins on July 1 and ends on June 30. Debt service payments are due on January 1 and July 1 each year and it is the Board's practice to set aside and reserve amounts due monthly in advance. Accordingly, annual debt service totals shown in the table above include amounts reserved for payment in the Fiscal Year indicated but not actually paid until July 1 of the following Fiscal Year, and similarly exclude amounts reserved for payment in the prior Fiscal Year but not actually paid until July 1 of the indicated Fiscal Year.*

The following table sets forth the Board's projected revenues, expenses and debt service coverage ratios for the Fiscal Years ended June 30, 2015 through 2019.

Table 25
Projected Revenues, Expenses and Debt Service Coverage
Fiscal Years 2015-2019
(Dollars in Thousands)

	2015	2016	2017*	2018*	2019*
Operating revenues:					
Water sales**	$212,205	$232,683	$239,663	$246,853	$254,259
Other operating revenues	3,228	3,540	3,646	3,755	3,868
Total operating revenues:	$215,433	$236,223	$243,309	$250,608	$258,127
Operating expenses (excluding depreciation):					
Administrative and general	$ 52,695	$ 57,780	$ 59,513	$ 61,299	$ 63,138
Maintenance	15,770	17,292	17,810	18,345	18,895
Power and pumping	39,230	43,016	44,307	45,636	47,005
CASE fees	3,300	3,300	3,300	3,300	3,300
Transmission and distribution	17,558	19,253	19,829	20,424	21,037
Customer accounting & collection	10,793	11,835	12,190	12,555	12,932
Water reclamation	6,915	7,583	7,810	8,045	8,286
Water treatment	0	0	0	0	0
Source of supply	151	165	170	175	181
Total operating expenses:	$146,412	$160,224	$164,929	$169,779	$174,774
Operating income:	$ 69,021	$ 75,999	$ 78,380	$ 80,829	$ 83,353
Non-operating revenues:					
Interest income	$ 2,200	$ 2,266	$ 2,334	$ 2,404	$ 2,476
Total non-operating revenues:	$ 2,200	$ 2,266	$ 2,334	$ 2,404	$ 2,476
Net revenues:	$ 71,221	$ 78,265	$ 80,714	$ 83,233	$ 85,829
Annual debt service:***	$ 20,528	$ 20,534	$ 20,543	$ 20,559	$ 20,591
Debt Service Coverage:	3.47	3.81	3.93	4.05	4.17

* *The Board plans to conduct a rate study for Fiscal Years 2017-2019 in conjunction with the water master plan; revenues and expenditures reflect an increase of up to 3% in various categories.*

** *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.*

*** *The Board's Fiscal Year begins on July 1 and ends on June 30. Debt service payments are due on January 1 and July 1 each year and it is the Board's practice to set aside and reserve amounts due monthly in advance. Accordingly, annual debt service totals shown in the table above include amounts reserved for payment in the Fiscal Year indicated but not actually paid until July 1 of the following Fiscal Year, and similarly exclude amounts reserved for payment in the prior Fiscal Year but not actually paid until July 1 of the indicated Fiscal Year.*

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, 2014. This information should be read in conjunction with the financial statements.

The increase in net position for the year ended June 30, 2014 was $20.5 million, compared to an increase of $19.9 million for the year ended June 30, 2013.

Operating revenues for the year ended June 30, 2014 were $194.9 million, an increase of $14.4 million or 8.0% from the year ended June 30, 2013 revenues, due to water rate increases that were implemented on July 1, 2013. Operating revenues for the year ended June 30, 2013 were $180.5 million, an increase of $21.0 million or 13.2% from the year ended June 30, 2012 revenues, due to water rate increases that were implemented on July 1, 2012.

Total operating expenses increased by $6.1 million and $14.8 million in Fiscal Years 2014 and 2013, respectively. Factors contributing to this change are explained below:

- Administrative and general expenses increased by $5.2 million in Fiscal Year 2014, mainly due to an increase in salaries, retirement health fund benefits and other contractual services. In Fiscal Year 2013, administrative and general expenses increased by $4.0 million, mainly due to an increase in project costs expensed and other contractual services.

- Power and pumping expenses decreased $3.7 million during Fiscal Year 2014. This was primarily due to a decrease in electricity costs of $3.8 million and an increase in the purchase of other materials and supplies. Power and pumping expenses increased by $6.0 million during Fiscal Year 2013. This was primarily due to an increase in electricity costs of $4.6 million and an increase in the repair and maintenance of equipment.

- Other operating expenses increased slightly in Fiscal Year 2014 by $0.4 million. Other operating expenses increased by $5.3 million during Fiscal Year 2014 due to an increase in other contractual services for transmission expenditures to replace automated meter reading batteries. Maintenance expenses increased mainly due to an increase in project costs expensed for ocean cooling, pumping station, transmission and water treatment maintenance expenditures.

- For the year ended June 30, 2014, non-operating expenses decreased by $1.0 million due primarily to a net increase in fair value on investments. Non-operating expenses increased by $4.1 million for the year ended June 30, 2013, due primarily to a decrease in interest expenses that were capitalized.

- 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 Board'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 $14.8 million in Fiscal Year 2014 compared to $23.5 million in Fiscal Year 2013. The decrease in contributions in aid of $8.7 million was due to a decrease in projects completed by governmental funds of $8.2 million, a decrease in the Water Service Facilities Charge revenue of $1.5 million offset by an increase in private development contributions of $1.0 million. During the year ended June 30, 2014, the major developments completed were the La Hiki Subdivision, Ocean Pointe Area IVC and the East Kapolei II Development.

The Board's unrestricted current assets were 3.1, 3.3, and 7.6 times its current liabilities, payable from current assets, as of June 30, 2014, 2013, and 2012, respectively. The ratio decrease at June 30, 2014 was due to the purchase of long-term investments.

The ratio decrease at June 30, 2013 was due to the $21.7 million decrease in unrestricted current investments as the Board's investment portfolio mix shifted to investment holdings with maturity dates that exceeded one year. The change in the investment mix also resulted in the $43.0 million increase in the Board's unrestricted noncurrent investments.

As of June 30, 2014 and 2013, capital assets net decreased by $18.0 million and $7.9 million, respectively. The decreases in Fiscal Years 2014 and 2013 were due to construction work in progress charge-offs and depreciation charges exceeding acquisitions.

As of June 30, 2014, current liabilities payable from current assets decreased by $1.4 million or 7.5%. This decrease is primarily due to the timing of payments on the Board's trade accounts payable.

Other liabilities and payables from restricted assets increased by $1.5 million during Fiscal Year 2014. The increase is primarily due to the timing of payments on the Board's contacts payable account.

The Board's noncurrent bonds payable decreased by $8.7 million and $8.4 million as of June 30, 2014 and 2013, respectively. These decreases represent the current bonds payable due within one year as of June 30, 2014 and 2013.

Net position increased by $21.1 million and $19.9 million as of June 30, 2014 and 2013, respectively. The increases were primarily due to an increase in operating revenue.

Recent Legislative Proposals

State legislature interest in chromium 6 has quieted in 2013 and 2014 likely due to California proposing a 10 ppb drinking water standard in 2013. This proposal is still in the review stage and not yet finalized. EPA is also collecting chromium 6 data in the third round of the unregulated contaminant monitoring rule which requires water utilities across the United States to analyze for various contaminants from 2013 - 2015. EPA will then need time to analyze the data to determine if these contaminants, including chromium 6, need to be regulated at the federal level. The potential for Hawaii legislation regulating chromium 6 has been further reduced with the State Department of Health recently identifying 13 ppb as the chromium 6 action level for Hawaii. Finally, 0.02 ppb is not a proposed standard. It is California's Public Health Goal (PHG) for chromium 6. The PHG is not a regulatory or proposed standard for drinking water. It is only one step in the process of developing an enforceable standard that is set by the California Department of Public Health for drinking water that public water systems must meet.

The Board cannot predict whether or in what form any other legislative proposals affecting the Board or its revenues and/or expenses may be enacted into law in the future. The enactment of any such legislation could 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 Waterworks Controller, 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 June 30, 2014. The aggregate fair value of such investments as of June 30, 2014, was $216,516,241.

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, 2014, the Board paid judgment claims in the amount of $494,000. In the aggregate, lawsuits and claims pending as of November 7, 2014 made against the Board have the potential to surpass the amount paid for claims in the Fiscal Year ending June 30, 2014. In the opinion of the Waterworks Controller of the Board, based on an analysis of the known claims and litigation, the expected liability arising out of pending litigation would not constitute a material impairment of the financial position of the Board.

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 2014 Bonds or that in any way contests the validity of the Series 2014 Bonds; or any proceedings of the Board taken with respect to the authorization, sale, or issuance of the Series 2014 Bonds, the pledge or application of any moneys provided for the payment of or security for the Series 2014 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 is Accuity LLP. The financial statements of the Board as of and for the Fiscal Year ended June 30, 2014, included in Appendix B to this Official Statement, have been audited by Accuity LLP, as stated in their report therein. Accuity LLP 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 2014 Bonds and the refunding of the Refunded Bonds, Causey Demgen & Moore P.C., 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 2014 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 2014 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 2014 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 2014 Bonds.

UNDERWRITING

The Series 2014 Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Underwriter. The Underwriter has agreed to purchase (i) the Series 2014A Bonds at an aggregate purchase price of $113,724,678.08 (equal to $101,655,000.00 principal amount of Series 2014A Bonds, plus a net original issue premium of $12,661,761.05, less the underwriters' discount of $592,082.97), and (ii) the Series 2014B Bonds at an aggregate purchase price of $43,106,353.37 (equal to $43,330,000.00 principal amount of Series 2014B Bonds less the underwriters' discount of $223,646.63). The bond purchase contract with respect to the Series 2014 Bonds provides that the Underwriter will purchase all the Series 2014 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract, the approval of certain legal matters by Bond Counsel and certain other conditions. 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 2014 Bonds to certain dealers (including depositing the Series 2014 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.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Board, for which they received or will receive customary fees and expenses.

The Board intends to use a portion of the proceeds from the Series 2014 Bonds to redeem the Refunded Bonds. To the extent the Underwriter or an affiliate thereof is an owner of Refunded Bonds, the Underwriter or its affiliate, as applicable, would receive a portion of the proceeds from the issuance of the Refunding Bonds contemplated herein in connection with the Refunded Bonds being redeemed by the Board.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Board.

The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

TAX MATTERS

Series 2014A Bonds

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 2014A 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 2014A 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 2014A 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 2014A Bonds is less than the amount to be paid at maturity of such Series 2014A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2014A 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 2014A 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 2014A Bonds is the first price at which a substantial amount of such maturity of the Series 2014A 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 2014A Bonds accrues daily over the term to maturity of such Series 2014A 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 2014A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2014A Bonds. Beneficial owners of the Series 2014A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2014A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2014A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2014A Bonds is sold to the public.

Series 2014A 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 2014A 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 2014A 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 2014A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2014A 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 2014A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2014A 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 2014A Bonds is excluded from gross income for federal income tax purposes and that the Series 2014A 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 amounts treated as interest on, the Series 2014A 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 2014A Bonds to be subject, directly or indirectly, in whole or in part, 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. For example, Representative Dave Camp, Chair of the House Ways and Means Committee released draft legislation that would subject interest on the Series 2014A Bonds to a federal income tax at an effective rate of 10% or more for individuals, trusts, and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on the Series 2014A Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2014A Bonds. Prospective purchasers of the Series 2014A Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express 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 2014A 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 has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2014A Bonds ends with the issuance of the Series 2014A 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 2014A 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 2014A 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 2014A Bonds, and may cause the Board or the Beneficial Owners to incur significant expense.

Series 2014B Bonds

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2014B Bonds that acquire their Series 2014B Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect, and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2014B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Series 2014B Bonds pursuant to this offering for the issue price that is applicable to such Series 2014B Bonds (i.e., the price at which a substantial amount of the Series 2014B Bonds are sold to the public) and who will hold their Series 2014B Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Series 2014B Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Series 2014B Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2014B Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series 2014B Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2014B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Interest. In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, the Series 2014B 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. Interest on the Series 2014B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Series 2014B Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix D hereto.

Stated interest on the Series 2014B Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. Federal income tax purposes.

The Series 2014B Bonds are not expected to be treated as issued with original issue discount ("OID") for U.S. federal income tax purposes because the stated redemption price at maturity of the Series 2014B Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a de minimis amount (as determined for tax purposes).

Disposition of the Series 2014B Bonds. Unless a non-recognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the Board) or other disposition of a Series 2014B Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2014B Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2014B Bonds) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Series 2014B Bond (generally, the purchase price paid by the Series 2014B Bond decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Series 2014B Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series 2014B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Tax on Net Investment Income. Certain non-corporate U.S. Holders of Series 2014B Bonds will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" (in the case of individuals) or "undistributed net investment income" (in the case of estates and certain trusts) for the relevant taxable year and (2) the excess of the U.S. Holder's "modified adjusted gross income" (in the case of individuals) or "adjusted gross income" (in the case of estates and certain trusts) for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual's circumstances). A U.S. Holder's calculation of net investment income generally will include its interest income on the Series 2014B Bonds and its net gains from the disposition of the Series 2014B Bonds, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of this tax to your income and gains in respect of your investment in the Series 2014B Bonds.

Information Reporting and Backup Withholding. Payments on the Series 2014B Bonds generally will be subject to U.S. information reporting and "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Series 2014B Bonds may be subject to backup withholding at the current rate of 28% with respect to "reportable payments," which include interest paid on the Series 2014B Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series 2014B Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

Non-U.S. Holders

Interest. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," payments of principal of, and interest on, any Series 2014B Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the Board through stock ownership and (2) a bank which acquires such Series 2014B Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Series 2014B Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Series 2014B Bonds. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Board) or other disposition of a Series 2014B Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Board) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series 2014B Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Series 2014B Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading "FATCA," under current U.S. Treasury Regulations, payment of principal and interest on any Series 2014B Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series 2014B Bond or a financial institution holding the Series 2014B Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Series 2014B Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28%.

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury regulations pays the proceeds of the sale of a Series 2014B Bond to the seller of the Series 2014B Bond, backup withholding and information reporting requirements will not apply to such payments provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Series 2014B Bond will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. Office of a broker of the proceeds of a sale of a Series 2014B Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

FATCA. Sections 1471 through 1474 of the Code, impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of U.S. source interest (including OID) and sales proceeds of debt obligations held by or through a foreign entity. Withholding under FATCA generally will apply to (i) payments of U.S. source interest (including OID) made after June 30, 2014, (ii) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2016 and (iii) certain foreign "pass-thru" payments no earlier than January 1, 2017, but exempt from withholding any payments made on and proceeds realized from the disposition of obligations that are outstanding on July 1, 2014 and are not substantially modified after that date, which exemption should exclude the Series 2014B Bonds from the withholding provisions of FATCA. Prospective investors should nonetheless consult their own tax advisors regarding FATCA and its effect on them.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Series 2014 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 2014 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. However, the Board has advised that, during the last five years, it has failed to report, or failed to report on a timely basis, certain notices of listed events, including notices of changes in insured bond ratings, recalibrations of the Board's underlying bond ratings and a bond redemption. The Board has policies and procedures in place to enhance compliance with its continuing disclosure undertakings including the one referenced in the preceding paragraph. The Board also has retained a dissemination agent to assist in the preparation and filing of annual reports and notices of listed events under the Continuing Disclosure Certificate and previous continuing disclosure undertakings. The Board regularly updates its financial and operating data, which may involve disclosing additional data, displaying data in a different format or eliminating data that are no longer material.

A failure by the Board to comply with the Continuing Disclosure Certificate will not constitute an event of default of the Series 2014 Bonds, although any Bondholder or any Beneficial Owner may bring action to compel the Board to comply with its obligations under the Continuing Disclosure Certificate. Any such failure must be reported in accordance with Rule15c2-12 and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2014 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2014 Bonds and their market price.

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 2014 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 983,429 (approximately 70% of the State's population) according to estimates by the U.S. Census Bureau as of July 1, 2013. 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, 2009 through 2013 and in the second quarters of 2013 and 2014. As indicated below, the unemployment rate for the City and County decreased from 5.8% in 2009 to 4.3% in 2013 and again to 4.1% in the second quarter of 2014. The City and County's unemployment rate has compared favorably on an annual basis to the unemployment rates for the State (6.8% in 2009, 6.7% in 2010, 6.5% in 2011, 5.7% in 2012 and 4.8% in 2013) and the nation as a whole (9.3% in 2009, 9.6% in 2010, 8.9% in 2011, 8.1% in 2012 and 7.4% in 2013).

Table I
EMPLOYMENT STATISTICS*

	Year Ended December 31					2nd Quarter	
	2009	2010	2011	2012	2013	2013	2014
Civilian Labor Force	443,550	454,000	458,750	455,950	456,800	456,800	466,500
Average Civilian Employment	418,000	428,100	433,400	432,850	437,250	437,300	447,250
Unemployment	25,550	25,900	25,350	23,050	19,550	19,550	19,250
Unemployment Rate	5.8%	5.7%	5.5%	5.1%	4.3%	4.3%	4.1%

* *Data benchmarked by the State of Hawaii Department of Labor & Industrial Relations in March 2014.*

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 2008 through 2012 (the most recent year for which state and 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
2008	$44,473	$41,452	$40,814
2009	44,916	41,335	39,342
2010	45,211	41,654	40,124
2011	47,252	43,606	42,309
2012	48,529	44,767	44,194

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

Housing Market. Median resale prices for single family homes and condominiums in Honolulu declined from 2007 to 2011 by 10.6% and 7.7%, respectively, in the course of the global economic downturn. Since then, median resale prices in the Honolulu housing market have rebounded to record highs. The following table presents median resale prices for single family homes and condominiums in Honolulu between 2007 and 2013 and for the first quarter of 2013 and 2014.

Table III

MEDIAN HOME RESALE PRICES

	Single Family Homes		Condominiums	
Year	Median Resale Price	Change from Prior Year	Median Resale Price	Change from Prior Year
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
2012	620,000	7.8	317,500	5.8
2013	650,000	4.8	332,000	4.6
2013 (Q1)	600,000	-2.7	340,000	9.7
2014 (Q1)	655,000	9.2	345,000	1.5

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. In the second quarter of 2014, the State government generated 75,800 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 June 30, 2014.

Federal Government and Military

The federal government plays an important role in Hawaii's economy. According to the most recent data available from the U.S. Bureau of Economic Analysis ("BEA"), the total compensation of employees ("COE") of federal government employees in Hawaii was $8.5 billion in 2013, about the same as in 2012. The total COE of combined military and civilian federal employees in Hawaii accounted for about 20.7% of Hawaii's total COE in 2013. Between 2003 and 2013, the annual average compounded growth rate for COE was 4.2% for civilian and 6.0% for military personnel in Hawaii. The military personnel accounted for 59.8% of the total federal COE in 2013. The federal government accounted for about 13.6% of State GDP in 2012, a majority of which is defense related. The most recent BEA data also shows that the earnings of federal government employees in the first quarter of 2014 increased 0.32% over the same quarter of 2013. In 2013, the earnings of federal government employees decreased 0.26% from the previous year.

In 2013, more than 72,500 people served in the military or were employed by the Department of Defense ("DoD"), comprised of 49,000 active-duty service members, 18,000 DoD civilian employees, and 5,500 National Guard and Reserve members. Generally, the median earnings for active-duty service members and DoD civilians are higher than that of other full-time employees in Hawaii.

There are currently over $600 million in planned construction projects for 2014 and 2015 in Hawaii. This includes a $166 million Army command and control facility at Fort Shafter. The Navy is planning $277 million for various projects at Kaneohe Bay (including facility improvements, road and infrastructure construction, aircraft maintenance and hangars), as well as a $30 million water transmission line in Pearl City and $67 million for a dry dock waterfront facility and submarine production facility and training buildings at Pearl Harbor. The Air Force is planning to construct a $4.8 million aircraft hangar at the Joint Pearl Harbor-Hickam Base. Also planned at the Joint Pearl Harbor-Hickam Base is $55 million for a warehouse, fuel tanks and fire system upgrades.

In April 2012, U.S. and Japanese officials announced an agreement between the two nations for the relocation of approximately 9,000 marines currently stationed in Okinawa. DoD officials expect that approximately 5,000 of these marines will be transferred to Guam, and the remaining 4,000 will be transferred to other Pacific locations, including Hawaii and Australia. The timeline for the relocation and the number of potential transferees to Hawaii are subject to further study.

The U.S. Army recently completed a Supplemental Programmatic Environmental Assessment for its Army 2020 force structure realignment. The assessment evaluates a scenario in which the Army would eliminate 16,606 soldiers and civilians from Schofield Barracks and 3,786 from Fort Shafter, both of which are located on the island of Oahu. In response, the Chamber of Commerce of Hawaii's Military Affairs Council launched a campaign to maintain the number of military members in Hawaii and is currently acquiring signatures on a petition to keep troops in Hawaii. The Army plans to hold a "listening session" on the impact of reducing forces in Hawaii on January 27, 2015.

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, but, on the other hand, may increase to reflect the growing importance of the Asia Pacific Region. The federal budget sequestration has not had a material adverse effect on the State.

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 Hawaii-chartered banks, one Hawaii-chartered financial services company, two federally-chartered savings associations, one national bank and two interstate branch banks with combined assets totaling $49.2 billion as of June 30, 2014, according to information from the Federal Deposit Insurance Corporation. The Hawaii-chartered banks (Bank of Hawaii, Central Pacific Bank, First Hawaiian Bank, Ohana Pacific Bank and

Pacific Rim Bank) have a combined total of 177 branches and total assets of $37.3 billion as of June 30, 2014. The Hawaii-chartered financial services company (Finance Factors, Ltd.) has nine branches and total assets of $484.4 million as of June 30, 2014. The two federally-chartered savings associations (American Savings Bank and Territorial Savings Bank) have 85 branches and $7.1 billion of total assets as of June 30, 2014. The national bank (Hawaii National Bank) has 14 branches and $633.6 million of total assets as of June 30, 2014. The two interstate branch banks (Bank of the Orient and HomeStreet Bank) have four Hawaii offices and total assets of $3.7 billion as of June 30, 2014.

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 74 million today. According to the 2013 Public Transportation Fact Book published by the American Public Transportation Association, the City and County hosts the 23rd largest transit agency in the nation. TheBus is the 20th most utilized transit system in the country and the 13th most utilized bus fleet. Additionally, on a per-capita basis, TheBus has the sixth highest transit ridership in the country.

The City and County is proceeding with plans for a new $5.17 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. See "DEBT STRUCTURE – Honolulu Rail Transit Project" in this Offering Memorandum for additional information regarding this project.

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 and the 2013 Airports Council International Worldwide Traffic Report, HNL was the 27th largest U.S. airport in 2013 based on the number of enplaned passengers.

Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. In Fiscal Year 2013, HNL recorded 284,532 aircraft operations as compared to 266,326 for Fiscal Year 2012. In addition, HNL passenger counts increased 6.6% to 19,778,282 in Fiscal Year 2013 from 18,556,491 in Fiscal Year 2012.

The Airports Division's "New Day" modernization program is formally under way as a result of receiving the Federal Aviation Administration's approval on the final environmental assessment, finding of no significant impact and record of decision reports in 2013. It includes significant capital improvements such as expanding HNL's Inter-Island terminal, constructing consolidated car rental facilities at its major airports, and installing energy saving equipment and devices statewide. The program is currently estimated to cost $2.1 billion through 2019 and is expected to be paid for from a variety of sources including cash, grants, passenger facility charges, rental motor vehicle customer facility charges and revenue bonds.

On August 22, 2013, the Airports Division held a ground breaking ceremony on the site of the new Hawaiian Airlines Maintenance and Cargo buildings. This will replace the old facilities, in order to widen the taxiway leading to the much needed expansion to the Inter-Island terminal concourse. The new concourse will add six wide-bodied and eleven narrow bodied gates to reduce peak-time traffic. The Airports Division awarded contracts for the Diamond Head commuter terminal, interim HNL consolidated rental car facility and related roadway improvements in 2014. The Airports Division expects to award contracts for the permanent HNL consolidated rental car facility in 2015.

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 during Fiscal Years 2011–2013 amounted to 9.8 million, 10.0 million and 10.9 million short tons, respectively. 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

Construction was one of the major contributors to job growth in Hawaii over the past few years. From 2002 to 2007, construction job growth averaged 8.0% per year. In the fourth quarter of 2007, the average construction job reached a peak of 40,000 jobs. Since the second quarter of 2008, however, the quarter-over-quarter growth rate of construction jobs has been negative in all quarters until the second quarter of 2011. In the second quarter of 2014, the construction sector lost 400 jobs or 1.3% compared with the same quarter of 2013. For the first half of 2014, the construction sector lost 100 jobs or 0.3% from the same period last year.

In the second quarter of 2014, the private building authorizations for the whole state increased $92.4 million or 12.9% compared with the second quarter of 2013. For the first half of 2014, private building authorizations for the state increased $221.7 million or 16.5% compared with the same period last year.

In the second quarter of 2014, the private building authorizations in Honolulu increased $36.4 million or 8.4% compared with the second quarter of 2013. For the first half of 2014, private building authorizations in Honolulu increased $33.5 million or 3.7% compared with the same period last year.

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 seven years and the first two quarters of 2013 and 2014.

Table IV

ESTIMATED VALUE OF BUILDING PERMITS

(Dollars in Thousands)

Year	State*	Change from Prior Year	City & County of Honolulu	Change from Prior Year
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	1,858,763	-6.1	1,272,923	-6.2
2012	2,643,841	42.2	1,769,454	39.0
2013	2,720,519	2.9	1,866,352	5.5
2013 (Q2)	714,032	10.3	431,670	-3.0
2014 (Q2)	806,458	12.9	468,094	8.4

* *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).

The Howard Hughes Corporation is developing a beachfront master-planned community on 60 acres in Kakaako known as Ward Village. The development will include 4,000 high-rise residences and more than one million square feet of retail and commercial space. Phase One – projected for completion in 2016 – includes the development of three residential towers and represents more than $1.25 billion in local economic impact and thousands of direct and indirect jobs for Oahu, according to a study by ALH Urban & Regional Economics. The developer is expected to present plans soon for Phase Two of the Ward Village master plan, which is reported to include the replacement of the existing Ward Warehouse shopping center with a new 236-unit residential high-rise project that includes two towers, as well as commercial and recreation space.

General Growth Properties is undertaking a $572 million expansion and renovation of its Ala Moana Shopping Center. Expansion plans include the addition of a new 167,000-square-foot, three-level Bloomingdale's store at Ala Moana Center scheduled to open in late 2015. When completed, Ala Moana Center will have an additional 300,000 square feet of in-line mall space, an additional five levels added to the Mauka parking deck, an expanded center court area to include a new stage and renovated restrooms, new finishes and amenities in the Makai Market food court, and a new sunshade above the walkway on the top level of the Nordstrom Wing. Nordstrom plans to relocate its existing full-line store to a new 186,000-square-foot, three-level store in the spring 2016.

The International Market Place, located in the heart of the Waikiki tourist district with direct access and frontage on Kalakaua Avenue and Kuhio Avenue, is currently undergoing a $300 million redevelopment by Taubman Properties scheduled to be completed in the spring 2016. The center will be anchored by a new 80,000-square-foot Saks Fifth Avenue, the only full-line department store in Waikiki, and include 750 dedicated on-site parking spaces. A 50,000-square-foot Grand Lanai will provide outdoor seating and feature seven sit-down restaurants.

The Symphony Honolulu project, which is being developed by California-based OliverMcMillan and consists of 388 residential condominiums in a 45-story tower, is currently under construction at the corner of Ward Avenue and Kapiolani Boulevard across from the Neal S. Blaisdell Center in Kakaako. The $200 million project, which will include an 80,000-square-foot, street level retail auto space that will allow residents to use cars such as Ferrari, Maserati and Lamborghini, is scheduled to be completed in early 2016.

The former Honolulu Advertiser building and adjacent property are being redeveloped into a $400 million, two-tower affordable housing condominium project by Hawaii-based developer Marshall Hung of Downtown Capital. Construction on the first phase of the project, which consists of a 46-story tower with 635 studios and one- and two-bedroom units, began in August 2013 and is expected to be completed in 2015. The second phase, approved by the Hawaii Community Development Authority in December 2013, is slated to begin construction by the end of 2014. The second tower will include 410 one-, two- and three-bedroom units and a 10-story parking garage.

Two major master-planned communities are proposed on Oahu. In Central Oahu, Castle & Cooke Homes Hawaii is planning to develop Koa Ridge, which will consist of 3,500 single- and multi-family homes (including 30% affordable homes), a medical center, shopping outlets and recreation areas on 576 acres between Mililani and Waipio. Groundbreaking for Koa Ridge Makai is scheduled for 2014 and the first homes are anticipated to be ready for occupancy in 2016. In West Oahu, D.R. Horton – Schuler Holmes is moving forward with its plans to develop Hoopili, which will consist of 11,750 single- and multi-family homes, commercial and light industrial space, community facilities, three elementary schools, one middle school, a high school, parks and open space, facilities and utilities on 1,289 acres of land. The developer plans to begin construction in 2016 and to start delivering completed homes in 2017.

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 "Education, Research and Science" and "Visitor Industry" below for a description of certain other construction projects related to the University of Hawaii and Oahu's 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 $54.4 billion in 2013, with retail, wholesale and service activities accounting for the majority. Of the State's 617,600 non-agricultural jobs in 2013, retail and wholesale trade together accounted for 87,600 jobs, or 14.2% of the total, and professional and business services, financial services, educational services, food and accommodation services and other services together accounted for 334,900 jobs, or 54.2% of the total.

Agriculture and Diversified Manufacturing

Oahu accounts for approximately 25% of the State's agricultural production. Agricultural sales totaled over $161 million for Oahu in 2012.

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 were 835 crop farms on Oahu in 2012, with flowers, vegetables and fruits comprising approximately 90% 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

The City and County's H-Power waste-to-energy facility has been in operation since 1990. Each year, the facility turns over 600,000 tons of municipal solid waste into electricity sold to the local electric utility. In October 2012, the City and County completed a $300 million expansion project at the H-Power facility which added another boiler capable of burning an additional 300,000 tons of waste per year. The project included new air pollution control equipment mandated by federal law which became operational in April 2011. The additional boiler entered commercial operations on April 2, 2013. See "DEBT STRUCTURE – H-Power Waste Disposal Facility" in this Offering Memorandum for a further discussion of this project.

In March 2011, First Wind (formerly Kahuku Wind Power) completed Oahu's first large-scale commercial wind farm on the North Shore of the island. Following a battery facility fire that suspended operations in August 2012, First Wind worked with Hawaiian Electric Company to bring the Kahuku project back to its full capacity of 30 megawatts earlier this year. At full capacity, the project's twelve turbines produce enough power for up to 7,700 homes on Oahu.

The Hawaii State Energy Office lists 18 additional renewable energy projects currently in the planning stages for Oahu, including a 50-megawatt biofuel power plant to be owned and operated by Hawaiian Electric Company on the U.S. Army's Schofield Barracks, a 50-megawatt solar farm to be built by SunEdison in the Waipio Gentry/Waiawa area, a 45-megawatt wind power project to be developed by Champlin Hawaii Wind Holdings in Kahuku, and a 30-megawatt solar farm developed by Eurus Energy America (owned by Toyota and Tokyo Electric Power) in Waianae. 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 was established in 1907 on the model of the American system of land grant universities created initially by the Morrill Act of 1862. In the 1960s and 1970s, the University was developed into a system of accessible and affordable campuses. These institutions currently include:

(i) a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law, and a medical school and new cancer research center in Kakaako in downtown Honolulu;

(ii) a comprehensive, primarily baccalaureate institution at Hilo, offering professional programs based on a liberal arts foundation and selected graduate degrees; a College of Pharmacy with a four year curriculum leading to a Doctor of Pharmacy degree, seated its inaugural class in the fall of 2007;

(iii) a baccalaureate institution at West Oahu, for which a new permanent campus was opened in August 2012, offering degrees in the liberal arts and professional studies; and

(iv) a system of seven open door community colleges spread across the islands of Kauai, Oahu, Maui and Hawaii, offering quality liberal arts and workforce programs.

In the fall of 2014, 57,284 students attended the University of Hawaii System, 19,378 of them on the Manoa campus.

The University has research partnerships with local, mainland and international universities, research institutions and business organizations. It secures research funding from various 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, and has been designated as one of only five Naval University Affiliated Research Centers.

The University of Hawaii is in the planning stages of constructing the Culinary Institute of the Pacific through Kapiolani Community College. The sustainable LEEDS rated facility will be constructed on the slopes of historic Diamond Head, at the site of the former Cannon Club. The facility will include 40,000 square feet on 7.5 acres of land, including two laboratory buildings (8,000 square feet each), a classroom building (4,000 square feet), an administration/faculty office building (4,000 square feet), a culinary amphitheater (4,000 square feet) and a restaurant (9,000 square feet). The project will cost approximately $40 million, and will be funded through a combination of private giving and bond funding.

In addition to the University of Hawaii System, there are also three private universities and one private college on Oahu. 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 seventeen quarters of positive growth from the third quarter of 2009, through especially strong growth in 2012, to the third quarter of 2013, Hawaii's tourism sector experienced two consecutive quarters of negative growth in the fourth quarter of 2013 and first quarter of 2014. However, in the second quarter of 2014, Hawaii's tourism sector returned to positive growth compared with the same quarter in 2013. The decrease in domestic visitor arrivals was more than offset by the increase in international visitor arrivals in the quarter. Due to shorter lengths of stay, the increase in daily visitor census was less than the increase in visitor arrivals. However, since visitors spent more on a daily basis during the second quarter of 2014, total visitor spending increased more than the growth in daily visitor census during the quarter.

The total number of visitors arriving by air to Hawaii increased 30,257 or 1.5% in the second quarter of 2014 compared to the same quarter of 2013. The total average daily census was up 1,919 or 1.0% in the quarter. For the first half of 2014, total visitor arrivals by air increased 21,494 or 0.5%, while the average daily census increased 865 or 0.4% from the same period last year.

In the second quarter of 2014, total visitor arrivals on domestic flights decreased 1,000 or 0.1% compared to the same quarter of 2013. This follows a 2.3% growth in the second quarter of 2013 over 2012. For the first half of 2014, domestic arrivals were down 40,960 or 1.5% from the same period last year.

After a strong 6.0% growth in the second quarter of 2013, arrivals on international flights increased 31,257 or 5.4% in the second quarter of 2014 compared to the second quarter of 2013. For the first half of 2014, international arrivals were up 62,454 or 5.0% from the same period in 2013.

In terms of major market areas, from the second quarter of 2013 to the same period of 2014, arrivals from the U.S. West decreased 7,426 or 0.9%; arrivals from the U.S. East increased 2,220 or 0.5%; and arrivals from Japan increased 13,277 or 4.1%. For the first half of 2014, arrivals from U.S. West were down 49,585 or 3.1%; arrivals from the U.S. East were down 280; and Japanese arrivals were up 14,509 or 2.1% from the same period last year.

Due to shorter lengths of stay, the average total daily visitor census increased less than the increase in visitor arrivals. The total average daily visitor census was up 1.0% or 1,919 visitors per day in the second quarter of 2014 over the same quarter of 2013. Domestic average daily census increased 0.1% or 182 visitors per day, while international average daily census increased 3.8% or 1,737 visitors per day. For the first half of 2014, domestic average daily census decreased 1,167 or 0.8%; international average daily census increased 2,033 or 3.9% from the same period last year.

Nominal visitor expenditures by air totaled $3,467.5 million in the second quarter of 2014, up 3.0% or $99.6 million from the same quarter of 2013. For the first half of 2014, visitor expenditures increased $187.5 million or 2.6% compared with the same period last year.

Total airline capacity, as measured by the number of available seats flown to Hawaii, increased 2.5% or 65,956 seats in the second quarter of 2014; domestic seats increased 2.2% or 40,012 seats; international seats increased 3.0% or 25,944 seats, compared to the same quarter of 2012. For the first half of 2014, the number of total available seats increased 0.9% or 31,034 seats from the same period last year.

According to the most recent data available, in the first quarter of 2014, the statewide hotel occupancy rate averaged 80.8%, 1.2 percentage points lower than that of the same quarter of 2013. In 2013, statewide hotel occupancy rate averaged 76.2%, 0.7 of a percentage point lower than that of the previous year.

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					2nd Quarter	
	2009	2010	2011	2012	2013	2013	2014[1]
Arrivals by Air[2] – State	6,420,448	6,916,894	7,174,397	7,867,143	8,003,474	1,974,892	2,005,150
Domestic	4,672,001	4,957,352	5,127,291	5,403,025	5,405,300	1,399,913	1,398,914
International	1,748,447	1,959,542	2,047,106	2,464,118	2,598,174	574,979	606,236
Arrivals by Air[2] – Oahu	4,024,888	4,273,658	4,401,624	4,904,045	5,044,276	1,246,384	1,267,996
Domestic	2,446,800	2,532,365	2,592,014	2,734,643	2,732,456	722,849	717,320
International	1,578,089	1,741,292	1,809,609	2,169,402	2,311,820	523,535	550,676
Ave. Daily Visitor Census – State	165,082	177,949	185,824	201,267	202,867	194,526	196,445
Domestic	129,100	136,407	142,027	148,887	149,213	148,513	148,695
International	35,983	41,542	43,797	52,380	53,663	46,013	47,750
Visitor Expenditures[3] – State	$9,794	$10,858	$12,047	$14,193	$14,352	$3,368	$3,468
Hotel Occupancy Rate – State	65.3%	70.7%	73.3%	76.9%	76.5%	74.2%	74.0%
Hotel Occupancy Rate – Oahu	72.3%	78.2%	80.7%	84.7%	83.7%	82.0%	N/A

(1) *Data preliminary.*

(2) *Staying overnight or longer.*

(3) *In millions of dollars, by persons arriving by air and staying overnight or longer.*

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.

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

Significant development projects related to the visitor industry which are currently under construction or in the later planning stages in and around Waikiki include:

- The Hilton Hawaiian Village is undergoing a $760 million renovation, including the addition of a new 37-story, 418-unit luxury time-share tower to be known as The Grand Islander. The project is expected to be completed in late 2016 or early 2017.

- Kyo-ya Hotels & Resorts, which owns the Sheraton hotels in Waikiki, is planning a $500 million renovation and expansion of its Princess Kaiulani Hotel. Plans include redeveloping the existing 260-foot tower to include 650 hotel rooms, and constructing a new tower as high as 350 feet to provide 300 hotel rooms and about 135 residential resort condominiums. Construction is expected to begin in 2015 and could take three years to complete.

- The Moana Surfrider, a Westin Resort & Spa, completed a $21 million refurbishment project earlier this year, and is planning to build a new $200 million, 26-story hotel and condominium complex fronting Waikiki Beach.

- California-based Pacrep LLC is building a $375 million, 34-story, 459-unit condominium hotel in Waikiki branded as The Ritz-Carlton Residences. Plans for a $159.5 million, 39-story, 280-unit sister were approved by the City Council earlier this year.

Significant development projects related to the visitor industry in other parts of Oahu include:

- The JW Marriott Ihilani Resort & Spa at Ko'Olina Resort will close in early 2015, undergo an extensive renovation and reopen under one of the top luxury brands in the world. The Resort Group, which will purchase the property from its current owner and oversee the renovation, is reportedly in talks with the Four Seasons Hotels and Resorts to manage the resort.

- Disney recently completed an expansion of its Aulani resort at Ko'Olina. Opened in August 2011, the resort features 350 hotel rooms and 480 Disney Vacation Club time-share villas.

- Turtle Bay Resort, on Oahu's north shore, recently completed a $50 million renovation.

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 game was moved to Miami in 2010, returned to Honolulu from 2011 through 2014, and will be played in Glendale, Arizona in 2015. Aloha Stadium will host the Pro Bowl once again in 2016 and has an option to host the game in 2017. According to the Hawaii Tourism Authority, the 2014 Pro Bowl attracted 47,270 attendees and reached an audience of 11.4 million viewers across the U.S., resulting in more than $200 million in media value. It also contributed an estimated $71.9 million in direct visitor spending in the state, not inclusive of the production costs of the game and events surrounding Pro Bowl week, which is estimated at an additional $15.7 million.

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 the City each December since 1973. More than 30,000 runners registered for the race in 2013, according to race officials, and the event generated an estimated $130 million in spending.

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 Art, founded in 1922, 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.

Recent major motion pictures filmed on Oahu include: *The Hunger Games—Catching Fire* (Lionsgate; filmed November 2012 and March 2013; released November 2013); *Godzilla* (Legendary Pictures/Warner Brothers; filmed June-July 2013; released May 2014); *Big Eyes* (The Weinstein Company; scheduled for release later this year); and an untitled project by Sony Pictures Entertainment/Columbia Pictures starring Bradley Cooper and Emma Stone and directed by Cameron Crowe (filmed September-December 2013; release date to be determined).

Also filmed in Honolulu, CBS's hit series *Hawaii Five-O* began its fifth season on September 26, 2014.

APPENDIX B

Audited Financial Statements

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CERTIFIED PUBLIC ACCOUNTANTS

Board of Water Supply
City and County of Honolulu

Financial Statements and Supplementary Information

June 30, 2014 and 2013

Quality *Integrity* *Insight*

Board of Water Supply
City and County of Honolulu
Index

Introduction

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 2014. This introduction provides an overview of the mission, organization, and operations of the BWS. The following management's discussion and analysis is intended to provide the reader with an easily understandable analysis of the BWS's financial performance and all aspects of its financial position. Financial statements presenting the financial position and results of operations of the BWS is in conformity with accounting principles generally accepted in the United States of America, accompanied by the independent auditors' report.

Organization and Business

The BWS is a semi-autonomous agency of the City and County of Honolulu (the "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 Hawaii.

The BWS consists of 15 Divisions and Support Offices – Water Quality Division, Capital Projects, Communications, Customer Care, Executive Support Office, 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 and Chief Engineer.

The Board of Directors has the power to set and adjust rates and charges for the furnishing of 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 167,931 accounts and a residential population of 983,429. The service area covers the island of Oahu and is 597.6 square miles. The customer base includes the residential population, businesses and industries, and agriculture. Of the total accounts, 155,871 are residential (92.8%), representing 60.4% of the total amount received from water sales in fiscal year 2014; 11,149 are commercial and industrial (6.7%), representing 38.7% of the total amount received from water sales in fiscal year 2014; and 911 are agricultural (0.5%).

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 fiscal year 2014, the BWS provided approximately 139.2 million gallons per day ("mgd") of potable water and approximately 10.8 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, dependable and affordable water supply to its customers, now and into the future.

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

- **Resource sustainability** (Safe) ensures that natural groundwater supplies are protected and managed efficiently.

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

- **Economic sustainability** (Affordable) calls for a sound financial strategy to support the BWS's operating and capital needs, while keeping water rates affordable.

Looking Ahead

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

1. Resource Sustainability (Safe)

To ensure safe water quality, the BWS protects, preserves and collaborates to ensure the safety and quality of Oahu's fresh water resources. To ensure adequate water quantity, the BWS safeguards Oahu's groundwater supplies and watersheds through adaptive and integrated strategies. This strategic objective ensures that natural groundwater and surface water supplies are protected from contamination and degradation and are managed efficiently for long-term sustainability. Efforts 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 to ensure the sustainability of the island's potable water supplies in a climate change future of variable and intense drought and storm events. The BWS's adaptive plans call for advanced conservation and diversified strategies and projects in potable groundwater, and alternative water supplies, including brackish, recycled, and desalinated water to meet future demands.

The BWS's comprehensive water conservation program continues to foster effective water management policies and practices that reduce per capita use of potable water to encourage sustainable behaviors to all users on Oahu. Resource and demand-side management, alternative water supplies, water system optimization, consumer education, and collaboration with other utilities on industry best practices, combine to form a holistic approach to this growing and expanding program.

- In fiscal year 2014, the BWS placed Honouliuli 228 Reservoir #3 in service, improving reliability in the Ewa Beach, Kapolei and Barber's Point areas by providing an additional six million gallons of storage capacity.

- The BWS conducted 33,775 chemical tests and 9,118 microbiological tests on samples collected from its water sources, distribution system, and treatment facilities to ensure all water served is safe to drink.

- In June 2014, the BWS completed its annual production and delivery of the Consumer Confidence Report ("CCR"), also known as the Water Quality Report, to all BWS customers. The report provides information on the quality of the water delivered from the BWS system and was mailed to all customers on record. The report is also available at www.boardofwatersupply.com. The BWS also placed ads in Honolulu newspapers, including various ethnic language publications, to inform community members of the distribution.

- BWS staff held a record 26 outdoor water conservation classes at the Halawa Xeriscape Garden. These classes shared various techniques on how to reduce water use through efficient landscaping.

- The BWS held the 25th annual Halawa Xeriscape Garden Open House and Unthirsty Plant Sale. The event was attended by an estimated 2,000 people who were eager to learn how to conserve water outdoors and save money on their combined water and wastewater bills.

- More than 1,300 posters and 200 poems were received from 57 schools on Oahu for the 2014 Water Conservation Week Poster and Poetry Contests. The winning posters and poems are featured in the BWS 2014 Water Conservation Calendar. The BWS formed public-private partnerships to offset calendar printing costs.

2. Organizational Sustainability (Dependable)

Maintaining a strong, flexible organization that is able to resolve economic, regulatory and service challenges requires that the BWS use aggressive as well as time-tested strategies to meet the second BWS objective of organizational sustainability.

- BWS Customer Care staff handled approximately 156,385 customer calls, 5,557 online requests, 7,462 walk-in customers, and 569 other requests from customers.

- Due to the high volume of calls and added requirements of CC&B, the Call Center staff was increased from 10 to 25 Customer Service Representatives. Also, an operator pool was created to handle overflow calls from customers. The increase in staffing resulted in decreasing the call abandon rate from 54.1 percent in July 2013 to 10.6 percent in June 2014.

- BWS Service Engineering addressed 6,865 walk-in customers, conducted 761 e-plan reviews, and reviewed 155 construction plans.

- With the introduction of online bill payment through BWS ePay, the volume of mail-in bill payments have decreased from more than 60 percent to approximately 48 percent.

- In addition to VISA and MasterCard, the BWS added Discover Card and JCB cards for customers to make payments.

- In response to Executive Order 13636 by the Federal Government, the BWS has increased its focus on improving critical infrastructure security and resilience. The completion of a Cybersecurity Program to address the Executive Order is expected by the end of fiscal year 2015.

- The BWS continually works with the City Department of Emergency Management and Hawaii State Civil Defense to insure it has the plans and procedures in place to respond effectively to emergency situations such as a tropical cyclone, an island wide power outage, radiological incident, tsunami, or other major threats. The Executive Support Officer manages the BWS Emergency Response Plan to insure the department is prepared to respond in the event of a natural or man-made disaster.

3. Economic Sustainability (Affordable)

The third 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 continued 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 on Oahu.

- The BWS's system involves capturing, treating, storing and moving water across the island. The BWS is in its second year of a three-year comprehensive Water Master Plan. The Water Master Plan is a comprehensive program that evaluates the entire water system, identifies necessary improvements, and balances the needs with costs to serve our customers now and through the next 30 years. These proactive measures enable us to provide safe, dependable and affordable water to the people of Oahu.

- In fiscal year 2014, the BWS's employees responded to 294 main breaks or about 14 breaks per 100 miles of pipeline. According to the American Water Works Association, water utilities nationwide should strive for a limit of roughly 25-30 breaks per 100 miles of pipeline.

- More than $32.8 million in construction contracts and more than $6.5 million in professional services contracts were awarded as of June 30, 2014. The major programs include the following:

  - **Water Main Replacement Program**: More than $19 million in water main construction projects were awarded to improve the water systems in Aina Haina, Alewa, Ewa Beach, Kalihi, Kaimuki, Manoa, Punchbowl, and Wilhemina Rise areas. Additionally, design contracts were awarded for water main replacements in Hawaii Kai, Manoa, Pacific Heights, Pearl Ridge, Wahiawa, Waikiki, and Wilhemina Rise; and also for fire hydrant installations in Aiea and Kaimuki.

  - **Water Facility Improvement Program**: During this fiscal year, new construction contracts were awarded to repair, renovate, repaint and/or reroof the Diamond Head Line Booster, Kaonohi 277 Reservoir, Makiki 180 Reservoir, Moanalua 405 Reservoirs No.1 and No. 2, Niu Valley Booster, Wahiawa 1075 Reservoir, and Waimalu Wells I. New design contracts were awarded for facility improvements at Nuuanu 822 Reservoir, Pearl City 865 Reservoir, Waahila 180 Reservoir, Waiau 285 Reservoir, Waiau 550 Reservoir, and Waimalu 217 Reservoir, and for installation of security fencing at various locations.

- **Mechanical and Electrical Renovation Projects**: Construction contracts were awarded for the renovation of the mechanical and/or electrical systems at the Aiea Booster No. 3, Aina Koa Booster IV, Aina Koa Booster V, Haiku Well, Halawa Wells, Kaamilo Booster, Kamiloiki Booster, Kuliouou Well, Makaha Wells V, Newtown Wells, Nuuanu Booster II, Punaluu Wells II, Waialee Wells, Wailupe Well I, Waiau Wells and Booster, and Wilder Wells. Design contracts were awarded for renovation work at Beretania Pump Station, Kuliouou Wells, Manoa Well II and Mililani Wells IV.

- The BWS continued to refine the new Customer Care & Billing System ("CC&B") that went live in January 2013 with the simultaneous conversion to monthly billing. The conversion of the new system presented a number of challenges which have been addressed by continuing to improve and expand ways to decrease estimated bill incidence and increase customer service responsiveness. During fiscal year 2014, the number of estimated bills was reduced to less than two percent.

- In an effort to further institute best industry practices, the BWS began performing deferred maintenance on the Automatic Meter Reading system, upgrading the software to enhance its reliability, and started a study of meter reading technology and practices.

- BWS staff responded to 987 complaints regarding possible water line leaks, 6,505 requests by various contractors to verify the location of waterlines to prevent damage to BWS infrastructure, and 24,309 field activities to address customer billing concerns.

- The BWS completed an upgrade of its Financial Management System to bring it to a supportable version. This project ensured the continued viability of the Financial Management System, and allowed for the collection of functional enhancement requirements to be used in an enhancement project programmed for the 2016 budget.

- The BWS is currently upgrading its Computerized Maintenance Management System to bring it to a supportable version. This upgrade will also provide a new mobile solution to be used in the field, and is anticipated to be completed in fiscal year 2016. It will also be leveraged for use by Water Systems Operations in the near future.

- The BWS's nationally recognized Geographic Information System ("GIS") database and applications continue to be upgraded for best in class industry functionality and performance. This system gives users access to GIS layers and updated imagery, and integrates map service sharing with other city departments. Enhancements for mobile data gathering and data sharing have been piloted with promising results.

- The BWS Hydraulic Model Program, in close collaboration with the Water Master Plan Project, has been working to complete the calibration and updates of the BWS water systems.

- The BWS Wireless Network Project continues deployment of site connectivity to provide high speed backbone links. With a majority of our sites connected, an ongoing Preventive Maintenance Program for the network, video surveillance and sensors is currently being planned, and will be formally implemented in fiscal year 2015.

- The BWS conducted 33,775 chemical tests and 9,118 microbiological tests on samples collected from its water sources, distribution system, and treatment facilities to ensure all water served is safe to drink.

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Board of Water Supply (the “BWS”), a component unit of the City and County of Honolulu (the “City”), as of June 30, 2014 and 2013, and the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

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

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

an independent member of
BAKER TILLY
INTERNATIONAL

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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, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 2, the financial statements referred to above include only the financial activities of the BWS, and are not intended to present fairly the financial position, changes in its financial position, or cash flows of the City, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 14 and schedule of funding progress on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB") who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the BWS. The introductory section and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Change in Accounting Principle
As discussed in Note 15 to the financial statements, in 2014 the BWS adopted the new accounting guidance, GASB Statement No. 65*, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated October 27, 2014 on our consideration of the BWS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BWS's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
October 27, 2014

Management's Discussion and Analysis

This section presents the management's discussion and analysis of the BWS's financial condition and activities for the fiscal year ended June 30, 2014. This information should be read in conjunction with the financial statements.

Financial Highlights

The BWS implemented the third of five scheduled rate increases in July 2013 to meet the rising costs of delivering water to customers and to continue its infrastructure repair and replacement programs. Water rates increased by 9.65%, which equates to more than $4 of monthly water charges for an average single-family residential customer effective July 1, 2013.

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

- Net position increased $20.5 million in fiscal year 2014 compared to the $19.9 million increase in fiscal year 2013.
- Total assets were $1.4 billion, which exceeded liabilities by $1.1 billion at June 30, 2014 and 2013.
- The BWS's unrestricted current assets at June 30, 2014 were 3.1 times its related current liabilities compared to 3.3 times at June 30, 2013.
- The BWS's debt to equity ratio was 28.7% and 29.9% at June 30, 2014 and 2013, respectively, indicating the continuance of capacity to issue additional debt.

Overview of Financial Report

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

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

The basic financial statements include statements of net position, statements of revenues, expenses and change in net position, statements of cash flows, and notes to the financial statements. The statements of net position present the resources and obligations of the BWS at June 30, 2014 and 2013. The statements of revenues, expenses and change in net position presents the changes in net position for the fiscal years then ended, and the resultant ending net position balances.

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

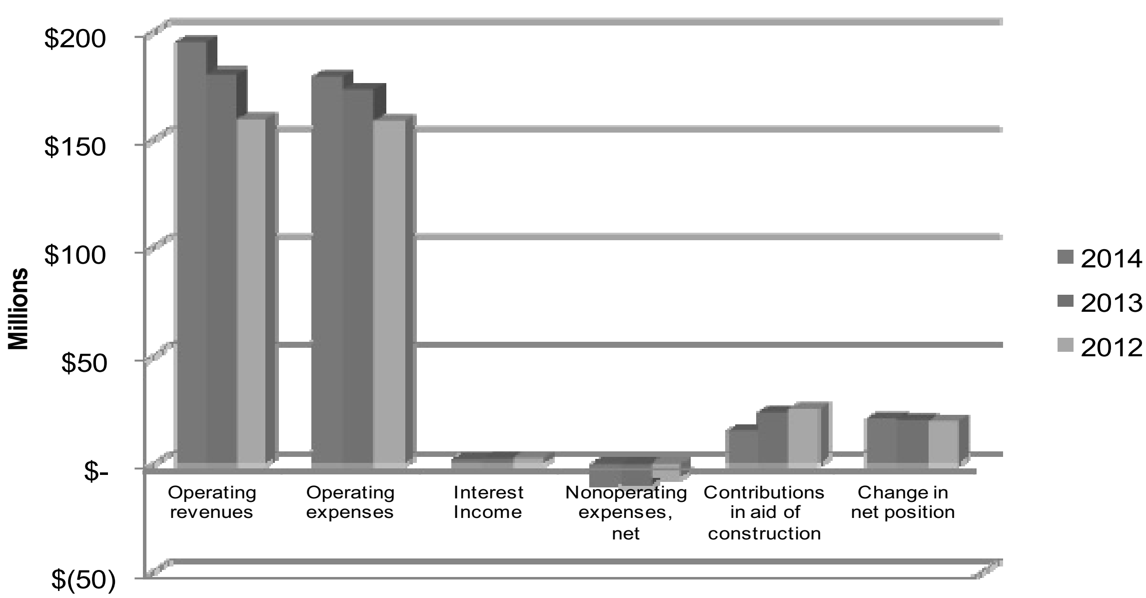
The notes to the financial statements provide required disclosures and other information necessary for the fair presentation of the financial statements. The notes detail information about the BWS's significant accounting policies, significant account balances, related party transactions, employee benefit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

Results of Operations

Condensed Statements of Revenues, Expenses and Change in Net Position

	2014	2013 (in thousands)	2012
Operating revenues	$ 194,943	$ 180,505	$ 159,508
Operating expenses			
Administrative and general	48,589	43,409	39,392
Depreciation	45,941	41,775	42,376
Power and pumping	35,578	39,248	33,202
Other operating expenses	49,472	49,060	43,754
Total operating expenses	179,580	173,492	158,724
Operating income	15,363	7,013	784
Nonoperating revenues (expenses)			
Interest income	2,149	2,529	2,903
Others	(11,853)	(13,196)	(9,499)
Total nonoperating expenses	(9,704)	(10,667)	(6,596)
Contributions in aid of construction	14,817	23,527	25,198
Change in net position	$ 20,476	$ 19,873	$ 19,386

Statements of Revenues, Expenses and Change in Net Position



The increase in net position for the year ended June 30, 2014 was $20.5 million, compared to an increase of $19.9 million for the year ended June 30, 2013.

Operating revenues for the year ended June 30, 2014 were $194.9 million, an increase of $14.4 million or 8.0% from the year ended June 30, 2013 revenues, due to water rate increases that were implemented on July 1, 2013. Operating revenues for the year ended June 30, 2013 were $180.5 million, an increase of $21.0 million or 13.2% from the year ended June 30, 2012 revenues, due to water rate increases that were implemented on July 1, 2012.

Total operating expenses increased by $6.1 million and $14.8 million in fiscal years 2014 and 2013, respectively. Factors contributing to this change are explained below:

- Administrative and general expenses increased by $5.2 million in fiscal year 2014, mainly due to an increase in salaries, retirement health fund benefits and other contractual services. In fiscal year 2013, administrative and general expenses increased by $4.0 million, mainly due to an increase in project costs expensed and other contractual services.

- Power and pumping expenses decreased $3.7 million during fiscal year 2014. This was primarily due to a decrease in electricity costs of $3.8 million and an increase in the purchase of other materials and supplies. Power and pumping expenses increased $6.0 million during fiscal year 2013. This was primarily due to an increase in electricity costs of $4.6 million and an increase in the repair and maintenance of equipment.

- Other operating expenses increased slightly in fiscal year 2014 by $0.4 million. Other operating expenses increased by $5.3 million during fiscal year 2013, due to an increase in other contractual services for transmission expenditures to replace automated meter reading batteries. Maintenance expenses increased mainly due to an increase in project costs expensed for ocean cooling, pumping station, transmission, and water treatment maintenance expenditures.

- For the year ended June 30, 2014, non-operating expenses decreased by $1.0 million due primarily to a net increase in fair value on investments. Non-operating expenses increased by $4.1 million for the year ended June 30, 2013, due primarily to a decrease in interest expenses that were capitalized.

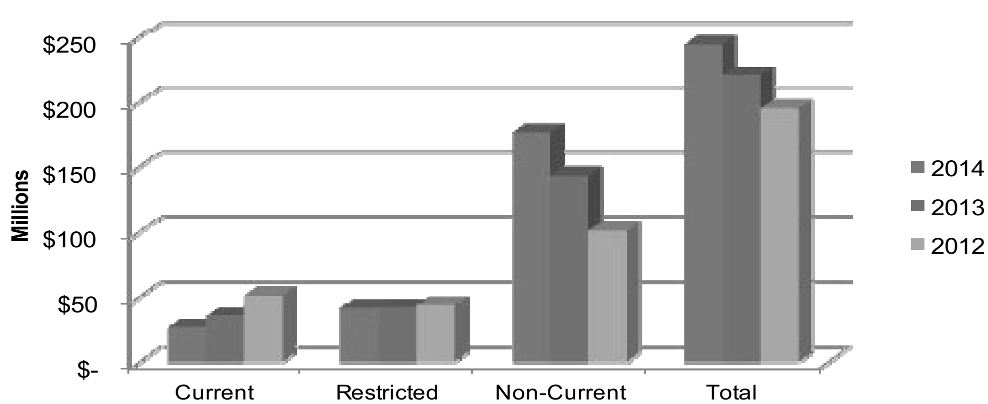
- Contributions in aid of construction result from water system facilities charges that are levied against all new developments and residential properties requiring water from the BWS's systems, except those developments that have paid for and installed a complete water system, including sources, transmission, 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 $14.8 million in fiscal year 2014 compared to $23.5 million in fiscal year 2013. The decrease in contributions in aid of $8.7 million was due to a decrease in projects completed by governmental funds of $8.2 million, a decrease in the Water Service Facilities Charge revenue ("WSFC") of $1.5 million offset by an increase in private development contributions of $1.0 million. During the year ended June 30, 2014, the major developments completed were the La Hiki Subdivision, Ocean Pointe Area IVC and the East Kapolei II Development.

Financial Condition

Condensed Statements of Net Position

	2014	2013	2012	% Change
		(in thousands)		
		(restated)	(restated)	
Current assets				
Cash and cash equivalents	$ 14,892	$ 20,404	$ 14,354	-27.0%
Investments	10,756	14,908	36,653	-27.9%
Other current assets	28,690	27,166	27,269	5.6%
Restricted assets				
Cash and cash equivalents	12,623	15,197	15,682	-16.9%
Investments	28,775	26,686	27,681	7.8%
Due from broker	-	1,330	-	-100.0%
Investments	176,985	143,688	100,659	23.2%
Capital assets, net	1,120,478	1,138,464	1,146,384	-1.6%
Other postemployment benefits asset	7,041	-	-	100.0%
Other assets	480	509	630	-5.7%
Total assets	1,400,720	1,388,352	1,369,312	0.9%
Deferred outflows of resources				
Deferred loss on refunding	8,760	9,299	9,837	-5.8%
Total deferred outflows of resources	8,760	9,299	9,837	-5.8%
Total assets and deferred outflows of resources	$ 1,409,480	$ 1,397,651	$ 1,379,149	0.8%
Current liabilities, payable from current assets	$ 17,629	$ 19,065	$ 10,326	-7.5%
Other liabilities and payables from restricted assets	48,586	47,107	48,860	3.1%
Bonds payable, noncurrent	275,659	284,349	292,707	-3.1%
Total liabilities	341,874	350,521	351,893	-2.5%
Net position				
Invested in capital assets, net of related debt	832,296	843,770	842,391	-1.4%
Restricted for capital activity and debt service	22,492	26,635	26,410	-15.6%
Unrestricted	212,818	176,725	158,455	20.4%
Total net position	1,067,606	1,047,130	1,027,256	2.0%
Total liabilities and net position	$ 1,409,480	$ 1,397,651	$ 1,379,149	0.8%

Cash and Investments



The BWS's unrestricted current assets were 3.1, 3.3 and 7.6 times its related current liabilities, payable from current assets, as of June 30, 2014, 2013 and 2012, respectively. The ratio decrease at June 30, 2014 was due to purchase of long-term investments.

The ratio decrease at June 30, 2013 was due to the $21.7 million decrease in unrestricted current investments as the BWS's investment portfolio mix shifted to investment holdings with maturity dates that exceeded one year. The change in the investment mix also resulted in the $43.0 million increase in the BWS's unrestricted noncurrent investments.

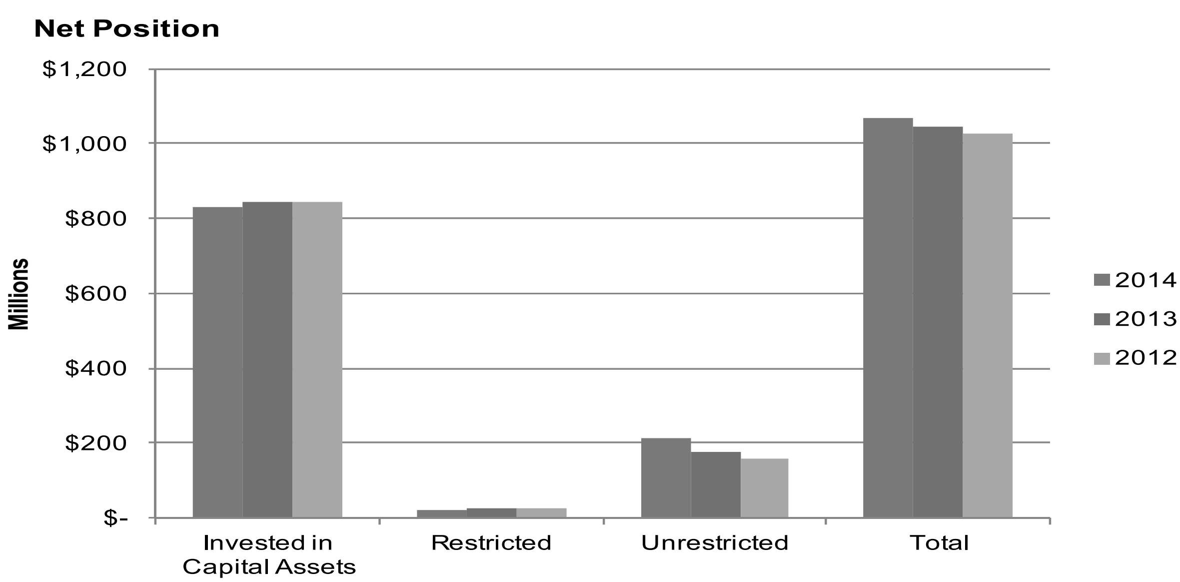
As of June 30, 2014 and 2013, capital assets, net decreased by $18.0 million and $7.9 million, respectively. The decreases in fiscal year 2014 and 2013 were due to construction work in progress charge-offs and depreciation charges exceeding acquisitions.

As of June 30, 2014, current liabilities payable from current assets decreased by $1.4 million or 7.5%. This decrease is primarily due to the timing of payments on the BWS's trade accounts payable.

Other liabilities and payables from restricted assets increased by $1.5 million during fiscal year 2014. The increase is primarily due to the timing of payments on the BWS's contracts payable account.

The BWS's noncurrent bonds payable decreased by $8.7 million and $8.4 million as of June 30, 2014 and 2013, respectively. These decreases represent the current bonds payable due within one year as of June 30, 2014 and 2013.

Net position increased by $20.5 million and $19.9 million as of June 30, 2014 and 2013, respectively. The increases were primarily due to an increase in operating revenue.



Capital Assets and Long-Term Debt

During fiscal years 2014 and 2013, the BWS capitalized $82.3 million and $70.6 million, respectively, to its utility plant in service. Major assets added in fiscal year 2014 were Kapiolani Boulevard Water and Sewer Improvements, $15.5 million; Ewa Shaft Renovation, $12.2 million; Honouliuli 228 Reservoir No. 3, $11.7 million; Nanakuli 242 Reservoir, $9.3 million; Wireless Communication System, $6.3 million; Beretania Public Service Building Air Conditioning System Improvements, $5.2 million; Ward Avenue 12-inch and 8-inch Mains, $2.7 million; and Mapunapuna Water System Improvements, Part II, $2.1 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 28.7%, 29.9% and 31.5% for fiscal years 2014, 2013 and 2012, respectively.

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

Rate Covenant

The BWS is required under its bond indenture, among other things, to fix, charge and collect such rates and other charges in each fiscal year to meet the net revenue requirement for such fiscal year. The net revenue requirement is the greater of 1) the sum of the aggregate debt service and all deposits required by bond resolution to be made, or 2) 1.20 times the aggregate debt service. The BWS met the net revenue requirements for the fiscal years ended June 30, 2014 and 2013.

Currently Known Facts, Decisions or Conditions

Effective July 1, 2014, the BWS increased its water rates by approximately 9.65%. One additional annual water rate increase has been approved.

Request for Information

This financial report is designed to provide a general overview of the BWS's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Water Supply, City and County of Honolulu, 630 S. Beretania Street, Honolulu, Hawaii 96843.

Financial Statements

Board of Water Supply
City and County of Honolulu
Statements of Net Position
June 30, 2014 and 2013

	2014	2013 (restated)
Assets		
Currents assets		
Cash and cash equivalents	$ 14,892,121	$ 20,404,063
Investments	10,756,252	14,907,797
Interest receivable	550,505	550,550
Customer receivables		
Billed, less allowance for uncollectible accounts of $2,304,718 and $1,993,416 in 2014 and 2013, respectively	11,419,964	6,462,403
Unbilled	9,143,735	11,017,915
Other receivables, less allowance for uncollectible accounts of $510,868 in 2014 and 2013	1,902,199	2,494,096
Materials and supplies	5,288,572	6,460,259
Prepaid expenses	384,572	181,093
Total current assets	54,337,920	62,478,176
Restricted assets		
Cash and cash equivalents	12,623,052	15,197,057
Investments	28,774,663	26,685,751
Due from broker	-	1,330,000
Total restricted assets	41,397,715	43,212,808
Investments	176,985,326	143,688,323
Capital assets		
Infrastructure	1,425,668,553	1,365,850,204
Building and improvements	157,657,127	152,197,864
Equipment and machinery	282,710,681	266,854,387
	1,866,036,361	1,784,902,455
Less: Accumulated depreciation	855,482,565	808,738,703
	1,010,553,796	976,163,752
Land	32,373,064	32,373,064
Construction work in progress	77,550,957	129,927,360
Net capital assets	1,120,477,817	1,138,464,176
Other postemployment benefits asset	7,041,217	-
Other assets	479,500	508,651
Total other assets	7,520,717	508,651
Total assets	1,400,719,495	1,388,352,134
Deferred outflows of resources		
Deferred loss on refunding	8,759,961	9,298,608
Total deferred outflows of resources	8,759,961	9,298,608
Total assets and deferred outflows of resources	$ 1,409,479,456	$ 1,397,650,742

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

Board of Water Supply
City and County of Honolulu
Statements of Net Position
June 30, 2014 and 2013

	2014	2013 (restated)
Liabilities		
Current liabilities		
Payable from current assets		
Accounts payable	$ 8,901,932	$ 10,790,929
Contracts payable, including retainages	5,187,199	3,871,504
Accrued vacation, current	2,666,607	1,464,290
Other	873,142	2,938,049
Total payable from current assets	17,628,880	19,064,772
Payable from restricted assets		
Contracts payable, including retainages	2,914,254	937,401
Accrued interest payable	6,596,473	6,750,422
Bonds payable, current	7,660,000	7,335,000
Notes payable, current	1,735,067	1,554,435
Total payable from restricted assets	18,905,794	16,577,258
Total current liabilities	36,534,674	35,642,030
Other liabilities		
Customer advances	929,732	894,125
Accrued vacation, noncurrent	4,004,681	5,042,067
Accrued workers' compensation	2,051,526	2,305,822
Other postemployment benefits	-	460,450
Notes payable, noncurrent	21,283,365	19,643,962
Accrued arbitrage rebate	65,888	48,873
Other	1,344,987	2,134,881
Total other liabilities	29,680,179	30,530,180
Bonds payable, noncurrent	275,659,041	284,349,001
Total liabilities	341,873,894	350,521,211
Commitments and contingencies		
Net Position		
Invested in capital assets – net of related debt	832,295,372	843,769,821
Restricted for capital activity and debt service	22,491,921	26,635,550
Unrestricted	212,818,269	176,724,160
Total net position	1,067,605,562	1,047,129,531
Total liabilities and net position	$ 1,409,479,456	$ 1,397,650,742

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

Board of Water Supply
City and County of Honolulu
Statements of Revenues, Expenses and Change in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues		
Water sales	$ 191,593,726	$ 177,316,132
Other, principally contract and service fees	3,348,996	3,189,204
Total operating revenues	194,942,722	180,505,336
Operating expenses		
Administrative and general	48,589,194	43,408,706
Depreciation	45,941,002	41,774,826
Power and pumping	35,577,725	39,248,278
Transmission and distribution	16,164,213	18,245,127
Maintenance	14,307,033	18,156,287
Customers' accounting and collection	9,790,050	4,408,308
Water reclamation	5,846,107	4,908,661
Central administrative services expense fees	3,300,000	3,300,000
Source of supply	64,064	41,265
Total operating expenses	179,579,388	173,491,458
Operating income	15,363,334	7,013,878
Nonoperating revenues (expenses)		
Interest income	2,148,814	2,528,333
Interest expense, net of interest capitalized and amortization of bond premiums of $1,276,415 and $1,415,891 in 2014 and 2013, respectively	(11,698,335)	(11,865,437)
Loss from disposal of capital assets	(394,052)	(254,503)
Realized and unrealized losses on investments	(188,266)	(2,414,961)
Other	427,978	1,338,780
Total nonoperating expenses	(9,703,861)	(10,667,788)
Contributions in aid of construction	14,816,558	23,527,156
Change in net position	20,476,031	19,873,246
Net position		
Beginning of year, restated	1,047,129,531	1,027,256,285
End of year, restated	$ 1,067,605,562	$ 1,047,129,531

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

Board of Water Supply
City and County of Honolulu
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Cash received from customers	$ 188,713,365	$ 184,544,815
Cash payments to suppliers for goods and services	(94,895,385)	(83,091,063)
Cash payments to employees for services	(44,333,099)	(43,099,841)
Other income, net	427,978	1,338,780
Net cash provided by operating activities	49,912,859	59,692,691
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets, net of contributions in aid of construction	(19,588,859)	(18,911,159)
Proceeds from sale of capital assets	-	9,665
Customer payments for capital projects	7,320,479	8,771,917
Principal paid on bonds	(7,335,000)	(7,985,000)
Interest paid on bonds	(13,011,178)	(12,361,416)
Proceeds from notes payable	3,428,392	85,061
Interest paid on notes payable	(100,506)	(124,975)
Principal paid on notes payable	(1,608,357)	(1,550,528)
Net cash used in capital and related financing activities	(30,895,029)	(32,066,435)
Cash flows from investing activities		
Purchase of investments	(162,896,293)	(144,688,330)
Proceeds from maturities of investments	133,643,657	119,814,269
Interest on investments	2,148,859	2,812,044
Net cash used in investing activities	(27,103,777)	(22,062,017)
Net increase (decrease) in cash and cash equivalents	(8,085,947)	5,564,239
Cash and cash equivalents		
Beginning of year	35,601,120	30,036,881
End of year (including $12,623,052 and $15,197,057 in restricted assets in 2014 and 2013, respectively)	$ 27,515,173	$ 35,601,120

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

Board of Water Supply
City and County of Honolulu
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 15,363,334	$ 7,013,878
Depreciation	47,515,750	43,399,565
Provision for doubtful accounts	(827,185)	(646,148)
Other revenues	427,978	1,338,780
Changes in assets and liabilities		
Customer receivables	(3,083,381)	1,936,726
Materials and supplies	1,171,687	(1,517,992)
Other receivables	591,897	(705,689)
Prepaid expenses	(203,479)	71,645
Accounts and contracts payable	1,403,551	5,727,342
Accrued vacation	164,931	284,743
Other postemployment benefits	(7,501,667)	448,450
Other liabilities	(5,110,557)	2,341,391
Net cash provided by operating activities	$ 49,912,859	$ 59,692,691
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	$ 7,496,079	$ 14,755,239
Amortization of other costs	29,150	120,997
Amortization of bond premium, net	(1,029,960)	(1,022,366)
Amortization of deferred loss on refunding	538,647	538,647

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

1. Operations

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

2. Summary of Significant Accounting Policies

Financial Statement Presentation, Measurement Focus and Basis of Accounting
The BWS is a component unit of the City (the "primary government"). The accompanying financial statements present only the activities of the BWS and do not include other organizations, activities and functions of the City.

The accounting policies of the BWS conform to U.S. generally accepted accounting principles as applicable to enterprise activities of governmental units as promulgated by the Governmental Accounting Standards Board ("GASB"). 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.

Use of Estimates
The preparation of the 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. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for receivables, accrued workers' compensation, and postretirement benefits. Actual results could differ from those estimates.

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 Board of Directors is required to follow certain procedures that include holding public hearings before implementing changes in the water rate schedules.

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.

Investments
Investments are stated at fair value, which are based on quoted market prices. The cost of securities sold is generally determined by the weighted average method.

Receivables
Receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the BWS's best estimate of the amount of probable credit losses in the BWS's existing receivables. The BWS determines the allowance based on historical write-off experience. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

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

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.

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

Major replacements, renewals, and betterments are capitalized. Interest costs are capitalized during the construction period of major capital projects. Interest costs incurred in the years ended June 30, 2014 and 2013 totaled $12,974,750 and $13,281,328, respectively. Capitalized interest costs totaled $814,252 and $1,053,169 for the years ended June 30, 2014 and 2013, respectively. The BWS also capitalizes certain indirect costs to construction work based upon actual construction direct labor. Maintenance, repairs and replacements that do not improve or extend the lives of the assets are charged to expense.

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

The estimated useful lives of capital assets are as follows:

Source of supply	20 to 100 years
Pumping plant	20 to 50 years
Water treatment plant	20 to 30 years
Transmission and distribution plant	13⅓ to 50 years
General plant	5 to 50 years

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

Bond Issue Prepaid Insurance Costs, Original Issue Discount or Premium, and Deferred Loss on Refundings

Bond issue costs are expensed when incurred, except for prepaid insurance costs related to bond issuance, which are amortized over the life of the respective issue on a straight-line basis. Original issue discount or premium and deferred loss on refunding are also amortized using the straight-line method over the terms of the respective issues. Original issue discount or premium are added to or offset against bonds payable in the statements of net position.

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.

As of June 30, 2014 and 2013, accumulated sick leave aggregated approximately $18,240,000 and $17,430,000, respectively. Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 or more unused sick days is entitled to additional service credit in the State of Hawaii's Employees' Retirement System.

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.

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions in aid of construction. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net position. 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 position 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.

Revenue Recognition

Beginning in January 2013, the BWS's policy is to bill customers on a cyclical 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.

Contributions in Aid of Construction

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

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.

Deferred Compensation Plan

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

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

Risk Management

The BWS is exposed to various risks of loss from: (1) torts, (2) theft of, damage to, and destruction of assets, (3) employee injuries and illnesses, (4) natural disasters, and (5) employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

The ranges of insurance limits and deductibles are as follows:

Policy	Limits (Millions)	Deductibles
Property	$ 60	$ 50,000
Public Entity Liability	15	750,000
Excess Workers' Compensation	25	600,000
Employment Practices	5	75,000
Storage Tank Liability	2	10,000
Pollution Legal Liability	5	250,000
Crime	5	25,000

New Accounting Pronouncements

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which became effective for reporting periods beginning after December 15, 2012. The objective of this Statement is to clarify the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. Management has adopted the new standard as presented in BWS's financial statements.

The GASB issued Statement No. 66, *Technical Corrections – 2012*, which became effective for reporting periods beginning after December 15, 2012. The objective of this Statement is to enhance usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement did not have a material effect on the BWS's financial statements.

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which became effective for reporting periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement did not have a material effect on BWS's financial statements.

The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The Statement amends and addresses an issue regarding application of the transition provisions of Statement No. 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

3. 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 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
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the term of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses, the BWS invests operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

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, 2014, $3,789,346 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. 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.

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. The BWS's concentration of credit risk related to investments in debt securities has been mitigated by limiting such investments to only debt obligations of the U.S. government and U.S. government-sponsored enterprises.

The historical cost and estimated fair value of investments at June 30, 2014 and 2013 consisted of the following:

	2014		2013	
	Cost	**Fair Value**	**Cost**	**Fair Value**
U.S. Treasury obligations	$ 162,171,248	$ 161,975,315	$ 130,259,846	$ 129,492,270
U.S. Government agencies	54,905,414	54,540,926	56,553,861	55,789,601
	$ 217,076,662	$ 216,516,241	$ 186,813,707	$ 185,281,871

At June 30, 2014, each investment had a credit quality rating of Aaa. The credit exposure as a percentage of total investments was as follows:

	Percent of Total	**Fair Value**
U.S. Treasury obligations	75%	$ 161,975,315
U.S. Government agencies		
Federal National Mortgage Association	13%	29,156,329
Federal Home Loan Mortgage Corporation	9%	18,860,542
Federal Home Loan Bank	3%	6,524,055
	100%	$ 216,516,241

The fair value of investments at June 30, 2014 by contractual maturity is shown below:

	Investment Maturities (In Years)		
	Fair Value	**Less Than 1**	**1 – 5**
U.S. Treasury obligations	$ 161,975,315	$ 12,002,720	$ 149,972,595
U.S. Government agencies	54,540,926	5,085,127	49,455,799
	$ 216,516,241	$ 17,087,847	$ 199,428,394

4. Restricted Assets

At June 30, 2014 and 2013, the BWS's restricted assets were comprised of cash and cash equivalents, debt securities, and due from broker receivables and were held for the following purposes:

	2014	**2013**
Construction, renewals, and replacements	$ 2,853,195	$ 2,801,286
Debt service	38,544,520	40,411,522
	$ 41,397,715	$ 43,212,808

5. Capital Assets

Capital assets activity during the years ended June 30, 2014 and 2013 were as follows:

	Balance July 1, 2013	Additions	Transfers	Retirements	Balance June 30, 2014
Depreciable assets					
Infrastructure	$ 1,365,850,204	$ 7,121,252	$ 53,288,910	$ (591,813)	$ 1,425,668,553
Buildings and improvements	152,197,864	-	5,801,630	(342,367)	157,657,127
Equipment and machinery	266,854,387	1,659,990	14,438,174	(241,870)	282,710,681
Total depreciable assets	1,784,902,455	8,781,242	73,528,714	(1,176,050)	1,866,036,361
Less: Accumulated depreciation	(808,738,703)	(47,515,750)	-	771,888	(855,482,565)
Total depreciable assets, net	976,163,752	(38,734,508)	73,528,714	(404,162)	1,010,553,796
Land	32,373,064	-	-	-	32,373,064
Construction work in progress	129,927,360	42,298,477	(94,674,880)	-	77,550,957
Net capital assets	$ 1,138,464,176	$ 3,563,969	$ (21,146,166)	$ (404,162)	$ 1,120,477,817

	Balance July 1, 2012	Additions	Transfers	Retirements	Balance June 30, 2013
Depreciable assets					
Infrastructure	$ 1,323,318,170	$ 12,759,768	$ 30,259,390	$ (487,124)	$ 1,365,850,204
Buildings and improvements	149,119,056	922,294	2,156,514	-	152,197,864
Equipment and machinery	243,497,917	3,649,601	20,852,790	(1,145,921)	266,854,387
Total depreciable assets	1,715,935,143	17,331,663	53,268,694	(1,633,045)	1,784,902,455
Less: Accumulated depreciation	(766,708,010)	(43,399,565)	-	1,368,872	(808,738,703)
Total depreciable assets, net	949,227,133	(26,067,902)	53,268,694	(264,173)	976,163,752
Land	32,373,064	-	-	-	32,373,064
Construction work in progress	164,784,029	38,364,014	(73,220,683)	-	129,927,360
Net capital assets	$ 1,146,384,226	$ 12,296,112	$ (19,951,989)	$ (264,173)	$ 1,138,464,176

Depreciation charges allocated to various functions for the years ended June 30, 2014 and 2013 totaled $1,574,748 and $1,624,739, respectively.

6. Bonds Payable

At June 30, 2014 and 2013, bonds payable consisted of the following:

	2014	2013 (restated)
Water System Revenue Bonds, Series 2004, annual principal due of $2,465,000 through July 1, 2014, with interest of 4.00%.	$ 2,465,000	$ 4,830,000
Water System Revenue Bonds, Series 2006A, annual principal due commencing July 1, 2012, ranging from $595,000 to $11,965,000 through July 1, 2036, with interest ranging from 4.00% to 5.00%.	155,730,000	156,745,000
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 5.00% to 5.25%.	29,105,000	32,200,000
Water System Revenue Bonds, Series 2012A, annual principal due ranging from $890,000 to $8,535,000 through July 1, 2033, with interest ranging from 3.00% to 5.00%.	82,545,000	83,405,000
	269,845,000	277,180,000
Add: Unamortized premium	13,474,041	14,504,001
	283,319,041	291,684,001
Less: Current portion	(7,660,000)	(7,335,000)
Noncurrent portion	$ 275,659,041	$ 284,349,001

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

Bonds payable activity during 2014 and 2013, were as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Water System Revenue Bonds					
Series 2004	$ 4,830,000	$ -	$ (2,365,000)	$ 2,465,000	$ 2,465,000
Series 2006A	156,745,000	-	(1,015,000)	155,730,000	1,050,000
Series 2006B	32,200,000	-	(3,095,000)	29,105,000	3,255,000
Series 2012A	83,405,000	-	(860,000)	82,545,000	890,000
	$ 277,180,000	$ -	$ (7,335,000)	$ 269,845,000	$ 7,660,000

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Water System Revenue Bonds					
Series 2004	$ 7,110,000	$ -	$ (2,280,000)	$ 4,830,000	$ 2,365,000
Series 2006A	157,720,000	-	(975,000)	156,745,000	1,015,000
Series 2006B	35,140,000	-	(2,940,000)	32,200,000	3,095,000
Series 2012A	85,195,000	-	(1,790,000)	83,405,000	860,000
	$ 285,165,000	$ -	$ (7,985,000)	$ 277,180,000	$ 7,335,000

At June 30, 2014, future bond principal and interest payments are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2015	$ 7,660,000	$ 12,688,000	$ 20,348,000
2016	8,005,000	12,346,000	20,351,000
2017	8,365,000	11,983,000	20,348,000
2018	8,745,000	11,604,000	20,349,000
2019	9,150,000	11,200,000	20,350,000
2020–2024	53,320,000	48,794,000	102,114,000
2025–2029	68,330,000	34,269,000	102,599,000
2030–2034	77,600,000	16,429,000	94,029,000
2035–2037	28,670,000	2,198,000	30,868,000
Total	$ 269,845,000	$ 161,511,000	$ 431,356,000

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, 2014 and 2013, the outstanding 1992 Series defeased bonds amounted to $6,095,000 and $8,885,000, 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.

In March 2012, the BWS issued $85,195,000 in Series 2012A water system revenue bonds. The proceeds of the issuance were used to refund, on a current basis, all of the BWS's outstanding Series 2001 bonds and to advance refund a portion of the outstanding 2004 Series and 2006A Series bonds. Consequently, a portion of the 2004 Series and 2006A Series bonds were considered defeased and were removed from the BWS's financial statements in 2012. This refunding was undertaken to reduce total debt service payments by $9,512,024 and resulted in an economic gain of approximately $7,152,000. At June 30, 2014 and 2013, the outstanding 2004 Series defeased bonds totaled $78,665,000. The outstanding 2006A Series defeased bonds totaled $7,475,000 as of June 30, 2014 and 2013.

The debt refunding that occurred during 2007 and 2012 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $2,464,000 and $8,238,000, respectively. These differences reported in the accompanying financial statements as a deferred outflow of resources are being charged to operations through the year 2031 using the straight-line method.

7. Notes Payable

At June 30, 2014 and 2013, notes payable consisted of the following:

	2014	2013
Notes payable to Department of Health		
Note payable in semi-annual installments of approximately $60,100, including interest at .10%, due June 2025	$ 1,315,432	$ 1,434,323
Non-interest bearing note payable in semi-annual installments of approximately $75,000, due September 2025	1,723,921	1,873,828
Note payable in semi-annual installments of approximately $104,400, including interest at .31%, due November 2025	2,358,006	2,559,105
Note payable in semi-annual installments of approximately $316,100, including interest at .10%, due February 2026	7,539,271	7,813,086
Note payable in semi-annual installments of approximately $10,200, including interest at .10%, due January 2027	254,045	274,238
Note payable in semi-annual installments of approximately $70,200, including interest at .01%, due August 2027	1,894,750	2,035,004
Note payable in semi-annual installments of approximately $32,500, including interest at .01%, due March 2028	909,557	974,477
Note payable in semi-annual installments of approximately $49,700, including interest at .01%, due March 2028	1,390,790	1,490,058
Note payable in semi-annual installments of approximately $36,100, including interest at .36%, due June 2028	983,446	1,051,902
Note payable in semi-annual installments of approximately $18,300, including interest at 1.0%, due April 2033	1,049,360	-
Note payable in semi-annual installments of approximately $34,200, including interest at 1.0%, due April 2033	2,011,468	-
Notes payable to other lenders		
Note payable in monthly installments of approximately $15,700, including interest at 5%, due September 2025	1,588,386	1,692,376
	23,018,432	21,198,397
Less: Current portion	1,735,067	1,554,435
Noncurrent portion	$ 21,283,365	$ 19,643,962

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

At June 30, 2014, future principal and interest payments for notes payable are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2015	$ 1,735,000	$ 129,000	$ 1,864,000
2016	1,754,000	121,000	1,875,000
2017	1,763,000	112,000	1,875,000
2018	1,772,000	103,000	1,875,000
2019	1,781,000	93,000	1,874,000
2020–2024	9,061,000	312,000	9,373,000
2025–2029	4,460,000	76,000	4,536,000
2030–2033	692,000	16,000	708,000
Total	$ 23,018,000	$ 962,000	$ 23,980,000

8. Other Long-Term Liabilities

The following is a summary of changes in other long-term liabilities for the years ended June 30, 2014 and 2013:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Customer advances	$ 894,125	$ 35,607	$ -	$ 929,732	$ -
Accrued vacation	6,506,357	2,831,538	(2,666,607)	6,671,288	2,666,607
Accrued workers' compensation	2,305,822	887,485	(1,141,781)	2,051,526	-
Other postemployment benefits	460,450	8,981,000	(9,441,450)	-	-
Accrued arbitrage rebate liability	48,873	17,015	-	65,888	-
Other	2,134,881	350,432	(1,140,326)	1,344,987	-
	$ 12,350,508	$ 13,103,077	$ (14,390,164)	$ 11,063,421	$ 2,666,607

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Customer advances	$ 1,387,908	$ -	$ (493,783)	$ 894,125	$ -
Accrued vacation	6,221,614	1,749,033	(1,464,290)	6,506,357	1,464,290
Accrued workers' compensation	2,393,549	1,211,800	(1,299,527)	2,305,822	-
Other postemployment benefits	12,000	8,681,000	(8,232,550)	460,450	-
Accrued arbitrage rebate liability	48,873	-	-	48,873	-
Other	2,330,845	134,034	(329,998)	2,134,881	-
	$ 12,394,789	$ 11,775,867	$ (11,820,148)	$ 12,350,508	$ 1,464,290

9. Net Position

The BWS's net position consisted of the following as of June 30, 2014 and 2013:

	2014	2013 (restated)
Invested in capital assets, net of related debt		
Capital assets, net	$ 1,120,477,817	$ 1,138,464,176
Deferred loss on refunding	8,759,961	9,298,608
Less: Noncurrent portion of water system revenue bonds payable	(275,659,041)	(284,349,001)
Less: Noncurrent portion of notes payable	(21,283,365)	(19,643,962)
Total invested in capital assets, net of related debt	832,295,372	843,769,821
Restricted for capital activity and debt service		
Restricted cash and cash equivalents	12,623,052	15,197,057
Restricted investments	28,774,663	26,685,751
Restricted other receivables	-	1,330,000
Less: Contracts payable, including retainages	(2,914,254)	(937,401)
Less: Accrued interest payable	(6,596,473)	(6,750,422)
Less: Current portion of bonds payable	(7,660,000)	(7,335,000)
Less: Current portion of notes payable	(1,735,067)	(1,554,435)
Total restricted for capital activity and debt service	22,491,921	26,635,550
Unrestricted	212,818,269	176,724,160
Total net position	$ 1,067,605,562	$ 1,047,129,531

10. 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.

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

The future minimum rental payments and sublease income from these operating leases at June 30, 2014 were as follows:

	Future Minimal Rental Payments	Less Sublease Income	Net Minimum Future Rental (Income) Expense
Year Ending June 30,			
2015	$ 159,000	$ 205,000	$ (46,000)
2016	159,000	198,000	(39,000)
2017	159,000	173,000	(14,000)
2018	159,000	105,000	54,000
2019	159,000	100,000	59,000
2020–2024	793,000	500,000	293,000
2025–2029	192,000	500,000	(308,000)
2030–2034	-	200,000	(200,000)
	$ 1,780,000	$ 1,981,000	$ (201,000)

11. Related Party Transactions

The BWS has an agreement with the Department of Environmental Services, City and County of Honolulu to provide certain services relating to the billing and collection of sewer service charges. Fees related to these services were negotiated at approximately $1,433,000 and $1,424,900 for the years ended June 30, 2014 and 2013, respectively.

The BWS has an agreement with the City to pay a Central Administrative Services Expense (“CASE”) fee for treasury, personnel, purchasing and other services that the City provides to the BWS on an on-going basis. The BWS’s Charter allows for CASE fees to the extent that it represents a reasonable charge for services necessary for the BWS to perform its duties. CASE fees incurred during the years ended June 30, 2014 and 2013 totaled $3,300,000.

Amounts due from the City totaled $36,326 as of June 30, 2014 and was included in other receivables. There were no amounts due from the City as of June 30, 2013.

The BWS has entered into agreements with the City for joint capital projects. There were no amounts advanced from the City as of June 30, 2014. The City advanced to the BWS $928,325 during the year ended June 30, 2013. The advanced amounts represent the City’s share of total project expenses. Unexpended advanced funds totaled $861,723 as of June 30, 2014 and 2013, and are included in other liabilities.

12. 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 comprised 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.

The 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.

Employees under the contributory and hybrid contributory plans hired prior to July 1, 2012 are entitled to a benefit multiplier of 2.0% of average final compensation. Employees who joined the contributory and hybrid contributory plans subsequent to June 30, 2012 receive a benefit multiplier of 1.75%. Members of the noncontributory plan receive a benefit multiplier of 1.25%.

Effective July 1, 2006, most general employees are required to become members of the hybrid contributory plan. Employees under the hybrid contributory plan that became members prior to July 1, 2012 are required to contribute 6.0% of their salary and fully vest upon receiving 5 years of credited service. Employees under the hybrid contributory plan that became members subsequent to June 30, 2012 are required to contribute 8.0% of their salary and fully vest upon receiving 10 years of credited service.

Most covered employees under the contributory plan that are covered by Social Security that became members prior to July 1, 2012 are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. General employees that became members subsequent to June 30, 2012 are required to contribute 9.8% of their salary and become fully vested with 10 years of credited service.

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 for the years ended June 30, 2014, 2013 and 2012, were approximately $5,162,000, $4,604,000 and $4,405,000, respectively, which represented approximately 15.5% of the BWS's covered payroll for the fiscal years ended June 30, 2014, 2013 and 2012.

ERS issues a Comprehensive Annual Financial Report 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 of Hawaii), who are at least 65 years of age and have at least 10 years of service.

The BWS is required to contribute the annual required contribution ("ARC") of the employer, an amount actuarially determined for the other postemployment benefits ("OPEB"). The ARC represents a level of funding that, if paid on an 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.

For the fiscal years ended June 30, 2014, 2013 and 2012, the components of the BWS's annual OPEB costs, the amounts contributed to the plan and the changes to the BWS's net OPEB asset (obligation) are summarized as follows:

	2014	2013	2012
Annual required contribution	$ 8,977,000	$ 8,674,000	$ 10,750,000
Interest on net OPEB obligation	32,000	54,000	53,000
Adjustment to annual required contribution	(28,000)	(47,000)	(44,000)
Annual OPEB cost	8,981,000	8,681,000	10,759,000
Contributions made	(16,482,667)	(8,232,550)	(11,755,000)
Change in net OPEB asset (obligation)	7,501,667	(448,450)	996,000
Net OPEB asset (obligation)			
Beginning of year	(460,450)	(12,000)	(1,008,000)
End of year	$ 7,041,217	$ (460,450)	$ (12,000)
Percentage of annual OPEB cost contributed	184%	95%	109%

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")	Actuarial AAL ("UAAL")	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
July 1, 2013	$ 25,638,000	$ 122,886,000	$ 97,248,000	21%	$ 31,677,000	307%
July 1, 2011	$ 14,557,000	$ 127,154,000	$ 112,597,000	11%	$ 29,900,000	377%

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.

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, 2013, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a discount rate of 7.0%, projected salary increases of 3.5%, and an annual health cost trend rates of 9.0% and 7.5% for PPO and HMO, respectively, reduced by decrements to an ultimate rate of 5.0% after 10 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, P.O. Box 2121, Honolulu, Hawaii 96805.

13. Commitments

Commitments, primarily for capital improvements, approximated $156,680,000 and $116,900,000 as of June 30, 2014 and 2013, respectively. Such amounts are to be funded by operating revenues, contributed capital, cash and investments on hand.

14. Contingencies

Workers' Compensation Self-Insurance Liability
The BWS is self-insured for workers' compensation and disability claims up to $600,000 and in excess of $25,000,000. The BWS has obtained excess insurance coverage for claims that are not self-insured. 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.

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

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

Arbitrage
The BWS is required to annually calculate rebates to the U.S. Treasury on revenue bond issues. In accordance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amounts by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. As of June 30, 2014 and 2013, the arbitrage rebate and yield restriction liability totaled $65,888 and $48,873, respectively.

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

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

15. Restatement

The BWS adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, in fiscal year 2014, which resulted in restating the 2013 financial statements. The effect on fiscal year 2013 was as follows:

Financial Statement Item	2013 As Previously Reported	Restatement	2013 As Restated
Other assets (bond issue costs)	$ 2,172,821	$ (1,664,170)	$ 508,651
Deferred loss on refunding	-	9,298,608	9,298,608
Bonds payable, noncurrent	275,050,393	9,298,608	284,349,001
Net position, unrestricted	178,388,330	(1,664,170)	176,724,160
Net position			
Beginning of year	1,028,920,455	(1,664,170)	1,027,256,285
End of year	1,048,793,701	(1,664,170)	1,047,129,531

Required Supplementary Information

Board of Water Supply
City and County of Honolulu
Schedule of Funding Progress
June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") (b)	Unfunded Actuarial Accrued Liability ("UAAL") (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
July 1, 2013	$ 25,638,000	$ 122,886,000	$ 97,248,000	21%	$ 31,677,000	307%
July 1, 2011	14,557,000	127,154,000	112,597,000	11%	29,900,000	377%
July 1, 2009	5,244,000	143,333,000	138,089,000	4%	33,104,000	417%

Supplementary Information

Board of Water Supply
City and County of Honolulu
Schedule of Bonds Payable
June 30, 2014

Description of Bonds Payable	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (A)	Outstanding June 30, 2014
Water System Revenue Bonds Series 2004					
Insured Serial Bonds	4.000%	1/28/2004	7/1/2014	(B)	$ 2,465,000
Water System Revenue Bonds Series 2006A (Non-AMT)					
Insured Serial Bonds	4.000%	7/7/2006	7/1/2014	(B)	1,050,000
Insured Serial Bonds	4.250%	7/7/2006	7/1/2015	(B)	3,660,000
Insured Serial Bonds	4.250%	7/7/2006	7/1/2016	(B)	3,820,000
Insured Serial Bonds	4.000%	7/7/2006	7/1/2017	(B)	3,000,000
Insured Serial Bonds	4.130%	7/7/2006	7/1/2017	(B)	975,000
Insured Serial Bonds	4.200%	7/7/2006	7/1/2018	(B)	1,185,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2019	7/1/2016	595,000
Insured Serial Bonds	4.130%	7/7/2006	7/1/2019	(B)	645,000
Insured Serial Bonds	4.130%	7/7/2006	7/1/2020	(B)	1,290,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2021	7/1/2016	960,000
Insured Serial Bonds	4.300%	7/7/2006	7/1/2021	(B)	390,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2022	(B)	2,740,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2023	(B)	8,225,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2024	(B)	8,595,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2025	7/1/2016	9,010,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2026	7/1/2016	9,470,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2027	(B)	9,925,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2028	7/1/2016	10,390,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2029	7/1/2016	10,890,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2030	7/1/2016	11,420,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2031	7/1/2016	11,965,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2032	7/1/2016	8,220,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2033	7/1/2016	8,640,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2034	7/1/2016	9,080,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2035	7/1/2016	9,550,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2036	7/1/2016	10,040,000
					155,730,000

(A) Call dates indicated are optional.
(B) Noncallable.

Board of Water Supply
City and County of Honolulu
Schedule of Bonds Payable
June 30, 2014

Description of Bonds Payable	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (A)	Outstanding June 30, 2014
Water System Revenue Bonds Series 2006B (AMT)					
Insured Serial Bonds	5.000%	7/7/2006	7/1/2014	(B)	3,255,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2015	(B)	3,430,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2016	(B)	3,605,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2017	7/1/2016	3,800,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2018	7/1/2016	4,005,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2019	7/1/2016	4,220,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2020	7/1/2016	4,455,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2021	7/1/2016	2,335,000
					29,105,000
Water System Revenue Bonds Series 2012A (Non-AMT)					
Insured Serial Bonds	3.00%	3/29/2012	7/1/2014	(B)	890,000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2015	(B)	915,000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2016	(B)	940,000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2017	(B)	970,000
Insured Serial Bonds	4.00%	3/29/2012	7/1/2018	(B)	3,960,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2019	(B)	4,140,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2020	(B)	2,320,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2021	(B)	6,865,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2022	(B)	8,535,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2023	7/1/2022	3,605,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2024	7/1/2022	3,790,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2025	7/1/2022	3,980,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2026	7/1/2022	4,185,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2027	7/1/2022	4,390,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2028	7/1/2022	4,595,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2029	7/1/2022	4,805,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2030	7/1/2022	5,025,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2031	7/1/2022	5,270,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2032	7/1/2022	5,540,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2033	7/1/2022	5,825,000
Bifurcated Serial Bonds	2.00%	3/29/2012	7/1/2020	(B)	2,000,000
					82,545,000
					$ 269,845,000

(A) Call dates indicated are optional.
(B) Noncallable.

Board of Water Supply
City and County of Honolulu
Schedule of Net Revenue Requirement
Years Ended June 30, 2014 and 2013

	2014	2013
Revenues		
Water sales	$ 191,593,726	$ 177,316,132
Interest	2,148,814	2,528,333
Other	3,776,974	4,527,984
Total revenues	197,519,514	184,372,449
Deductions		
Operating expenses	179,579,388	173,491,458
Less: Depreciation expense	(45,941,002)	(41,774,826)
Less: Allocated depreciation charges	(1,574,748)	(1,624,739)
Total deductions	132,063,638	130,091,893
Net revenues	$ 65,455,876	$ 54,280,556
Net Revenue Requirement		
Greater of		
1) Aggregate debt service	$ 20,513,303	$ 20,504,052
Required deposits	-	-
	20,513,303	20,504,052
2) Aggregate debt service	20,513,303	20,504,052
Minimum required debt service ratio	x 1.20	x 1.20
Net revenue requirement	$ 24,615,964	$ 24,604,862
Net revenue to aggregate debt service ratio	3.19	2.65

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 $144,985,000 Water System Revenue Bonds, Series 2014A and Series 2014B (together, 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 October 27, 2014 (the "2014 Series Resolution"). The Bond Resolution, as previously supplemented, as supplemented by the 2014 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 November 20, 2014, 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, 2014, 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." The Department regularly updates such financial and operating data and may disclose additional data, display data in a different format, or eliminate data that are no longer material.

(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: December 9, 2014

____
Ernest Y.W. Lau, Manager and Chief Engineer
Board of Water Supply
City and County of Honolulu

The above and foregoing certificate is hereby approved as to form and legality this 9th day of December, 2014:

____
Donna Y.L. Leong
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 2014A and Series 2014B
Date of Issuance:	December 9, 2014

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 December 9, 2014, 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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PROPOSED FORM OF OPINION OF BOND COUNSEL

[Delivery Date]

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 2014A and Series 2014B (Taxable)
(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 $101,655,000 aggregate principal amount of its Water System Revenue Bonds, Series 2012A (the "Series 2014A Bonds") and $43,330,000 aggregate principal amount of its Water System Revenue Bonds, Series 2012B (Taxable) (the "Series 2014B Bonds" and, together with the Series 2014A Bonds, the "Bonds"), pursuant to proceedings of the Board, including a Bond Resolution, adopted April 26, 2001 and a Series Resolution, adopted on October 27, 2014 (collectively, the "Resolution"), and a Series Certificate of an authorized officer of the Board dated November 20, 2014 (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. 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 Series 2014A 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, receivership, 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, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, 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 Series 2014A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Series 2014A 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 further observe that interest on the Series 2014B Bonds is not excludable from gross income for federal income tax purposes. 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. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, 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 2014 Bonds. The Series 2014 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 2014 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 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014A 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 2014 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 2014 Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014 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 2014 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 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 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 2014 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2014 Bonds, such as redemptions defaults, and proposed amendments to the Series 2014A Bond documents. For example, Beneficial Owners of the Series 2014 Bonds may wish to ascertain that the nominee holding the Series 2014 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 2014 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 2014 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 2014 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 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 2014 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 2014A 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 2014A Bond certificates will be printed and delivered to DTC.

BOARD OF WATER SUPPLY, City and County of Honolulu • Water System Revenue Bonds, Series 2014A Bonds (Tax-Exempt) and Series 2014B Bonds (Taxable)

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