NEW ISSUES
FULL BOOK-ENTRY ONLY

RATINGS: See "Ratings" herein.

In the opinion of Kutak Rock LLP, Bond Counsel, 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 DK Bonds and the Series DL Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and the Series DK Bonds, the Series DL Bonds and the Series DM Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. In the further opinion of Bond Counsel, interest on the Series DK Bonds and the Series DL Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding the treatment under federal income tax law of the interest on the Series DM Bonds or any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" in this Official Statement.

STATE OF HAWAII

$375,000,000 General Obligation Bonds of 2008, Series DK	$29,010,000 General Obligation Refunding Bonds of 2008, Series DL	$25,000,000 General Obligation Bonds of 2008, Taxable Series DM

(Base CUSIP: 419787)

Dated: Date of Delivery

Due: As shown on inside cover

The General Obligation Bonds of 2008, Series DK, the General Obligation Refunding Bonds of 2008, Series DL and the General Obligation Bonds of 2008, Taxable Series DM (collectively, the "Bonds"), will be issuable in fully registered form and when issued will be registered initially 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 is the registered owner of the Bonds, purchases of the 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 Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the Bonds will be made 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. Purchases of the Bonds may be made in the denomination of $5,000 or any integral multiple thereof. See Appendix G—"Book-Entry System" herein.

The Bonds of each issue bear interest payable on May 1 and November 1 of each year, commencing November 1, 2008. The Bonds are subject to redemption prior to maturity as and to the extent described herein.

The Bonds of each issue are being issued for the purpose of financing, or reimbursing the State of Hawaii for, the Hawaiian Home Lands Settlement, and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks and for other public purposes or for the purpose of refunding outstanding general obligation bonds of the State previously issued for such purposes. See "AUTHORITY AND PURPOSE" and "PLAN OF REFUNDING" herein. The Bonds are general obligations of the State of Hawaii. The interest and principal payments on the Bonds are a first charge on the General Fund of the State of Hawaii, and the full faith and credit of the State of Hawaii are pledged to the punctual payment thereof.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the Appendices hereto, to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE—See Inside Cover Page

The Bonds of each issue are offered when, as and if issued and received by the Underwriters, and are subject to the approval of validity by Kutak Rock LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about May 20, 2008.

Citi **UBS Investment Bank**

Dated: May 12, 2008

State of Hawaii

$375,000,000 General Obligation Bonds of 2008, Series DK
Dated: Date of Delivery
Due: May 1, as shown below

Due	Principal Amount	Interest Rate	Price	CUSIP Number (419787)
5/1/2012	$5,360,000	3.00%	99.777%	AA4
5/1/2012	9,450,000	5.00	107.160	AB2
5/1/2013	5,505,000	3.50	101.452	AC0
5/1/2013	9,935,000	5.00	108.268	AD8
5/1/2014	16,130,000	5.00	109.110	AE6
5/1/2015	4,420,000	3.75	101.899	AF3
5/1/2015	12,520,000	5.00	109.565	AG1
5/1/2016	17,730,000	5.00	109.671	AH9
5/1/2017	18,615,000	5.00	109.504	AJ5
5/1/2018	19,545,000	5.00	109.254	AK2
5/1/2019	3,600,000	4.00	100.079*	AL0
5/1/2019	6,350,000	4.25	102.115*	AM8
5/1/2019	10,575,000	5.00	108.223*	AN6
5/1/2020	9,705,000	4.10	100	AP1
5/1/2020	11,760,000	5.00	107.289*	AQ9
5/1/2021	3,125,000	4.20	100	AR7
5/1/2021	19,325,000	5.00	106.447*	AS5
5/1/2022	2,335,000	4.25	99.685	AT3
5/1/2022	21,215,000	5.00	105.780*	AU0
5/1/2023	3,735,000	4.30	99.452	AV8
5/1/2023	20,975,000	5.00	105.200*	AW6
5/1/2024	1,685,000	4.375	99.713	AX4
5/1/2024	24,235,000	5.00	104.789*	AY2
5/1/2025	2,445,000	4.40	99.524	AZ9
5/1/2025	24,760,000	5.00	104.461*	BA3
5/1/2026	1,900,000	4.40	99.018	BB1
5/1/2026	26,650,000	5.00	104.134*	BC9
5/1/2027	3,255,000	4.50	99.744	BD7
5/1/2027	26,710,000	5.00	103.808*	BE5
5/1/2028	5,670,000	4.50	99.087	BF2
5/1/2028	25,780,000	5.00	103.403*	BG0

$29,010,000 General Obligation Refunding Bonds of 2008, Series DL
Dated: Date of Delivery
Due: May 1, as shown below

Due	Principal Amount	Interest Rate	Price	CUSIP Number (419787)
5/01/2012	$3,745,000	3.00%	99.777%	BH8
5/01/2013	3,860,000	3.50	101.452	BJ4
5/01/2014	3,995,000	3.25	99.730	BK1
5/01/2015	4,120,000	3.75	101.899	BL9
5/01/2016	4,275,000	3.50	99.381	BM7
5/01/2017	4,425,000	3.70	99.696	BN5
5/01/2018	4,590,000	5.00	109.254	BP0

$25,000,000 General Obligation Bonds of 2008, Taxable Series DM
Dated: Date of Delivery
Due: May 1, as shown below

Due	Principal Amount	Interest Rate	Price	CUSIP Number (419787)
5/01/2009	$3,835,000	3.33%	100%	BQ8
5/01/2010	3,910,000	3.68	100	BR6
5/01/2011	4,055,000	4.01	100	BS4
5/01/2012	4,215,000	4.26	100	BT2
5/01/2013	4,395,000	4.46	100	BU9
5/01/2014	4,590,000	4.67	100	BV7

* Priced to first optional call date: May 1, 2018.

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

Linda Lingle
Governor

James R. Aiona, Jr.
Lieutenant Governor

Georgina K. Kawamura
Director of Finance

Mark J. Bennett
Attorney General

Russ K. Saito
Comptroller

BOND COUNSEL

Kutak Rock LLP

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The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have 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 Underwriters do 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 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 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 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 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 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

State of Hawaii

$375,000,000 General Obligation Bonds of 2008, Series DK	$29,010,000 General Obligation Refunding Bonds of 2008, Series DL	$25,000,000 General Obligation Bonds of 2008, Taxable Series DM

The purpose of this Official Statement, which includes the cover page and the inside cover page hereof and the appendices hereto, is to set forth information concerning the State of Hawaii (sometimes herein referred to as the "State") and its $375,000,000 aggregate principal amount of General Obligation Bonds of 2008, Series DK (the "Series DK Bonds"), its $29,010,000 aggregate principal amount of General Obligation Refunding Bonds of 2008, Series DL (the "Series DL Bonds") and its $25,000,000 aggregate principal amount of General Obligation Bonds of 2008, Taxable Series DM (the "Series DM Bonds," and, together with the Series DK Bonds and the Series DL Bonds, the "Bonds"), in connection with the sale of the Bonds by the State of Hawaii.

AUTHORITY AND PURPOSE

The Bonds will be issued pursuant to the authority of and in full compliance with the provisions, restrictions and limitations of the Constitution and the laws of the State, including Part I of Chapter 39 of the Hawaii Revised Statutes, as amended ("HRS"), and pursuant to the authority of certain acts of the Legislature (the "Legislature") of the State and a Certificate of the Director of Finance of the State (the "Bond Issuance Certificate").

The proceeds from the sale of the Bonds will be used (i) in the case of the Series DK Bonds, to finance, or to reimburse the State for, certain expenditures for public purposes for which appropriations have been made in certain Acts of the State Legislature and which the Legislature may from time to time approve, including the Hawaiian Home Lands Settlement effected by Act 14, Session Laws of Hawaii ("SLH") 1995 (Special Session), and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks and certain other public purposes, including payment of $30 million during fiscal year 2009 in connection with the Hawaiian Home Lands Settlement, as authorized by Act 178, SLH 2005, (ii) in the case of the Series DL Bonds, to refund certain outstanding general obligation bonds previously issued for such purposes, as described below under "PLAN OF REFUNDING," in order to reduce the debt service payable on the State's general obligation bonds in certain years, (iii) in the case of the Series DM Bonds, to finance, or reimburse the State for, certain expenditures made by the Hawaii Housing Finance and Development Corporation in connection with Kukui Gardens multifamily housing project for which an appropriation was made in Act 231, SLH 2007, and (iv) to pay costs of issuance of the Bonds. See "DEBT STRUCTURE—Outstanding Indebtedness and Debt Limit" in Part I of Appendix A.

PLAN OF REFUNDING

Upon delivery of the Bonds, the State and Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"), will enter into an Escrow Deposit Agreement (the "Escrow Agreement") to provide for the refunding of a $28,805,000 principal amount portion (the "Refunded Bonds") of the $61,945,000 outstanding principal amount of State of Hawaii General Obligation Bonds of 1997, Series CP, as follows:

Schedule of Refunded Bonds

State of Hawaii
General Obligation Bonds of 1997, Series CP

Principal Amount	Stated Maturity	Redemption Price
$3,525,000	10/01/11	101%
3,705,000	10/01/12	101%
3,895,000	10/01/13	101%
4,095,000	10/01/14	101%
4,305,000	10/01/15	101%
4,525,000	10/01/16	101%
4,755,000	10/01/17	101%

The State will irrevocably designate the Refunded Bonds for redemption on June 19, 2008, and provisions will be made in the Escrow Agreement for the giving of the notice of such redemption. The Refunded Bonds may not be redeemed other than as described in this paragraph.

The Escrow Agreement creates an irrevocable trust fund (the "Escrow Fund") which is to be held by the Escrow Agent, and the moneys and securities held therein are to be applied to the payment of principal of and premium and interest on the Refunded Bonds. Immediately upon the issuance and delivery of the Series DL Bonds, the State will deposit, or cause to be deposited, with the Escrow Agent, a portion of the proceeds derived from the sale of the Series DL Bonds. Moneys deposited in the Escrow Fund will be invested, at the direction of the State, in noncallable direct obligations of the United States (the "Escrow Securities") which, together with cash held uninvested in the Escrow Fund, will be sufficient, without reinvestment, and will be applied to redeem the Refunded Bonds on the redemption date, June 19, 2008, at the redemption price thereof. The maturing principal of and interest on the Escrow Securities and cash held in the Escrow Fund, in the amounts needed to pay the principal of, interest on, and redemption premium with respect to, the Refunded Bonds, are pledged solely for the benefit of the holders of the Refunded Bonds. The Escrow Securities will be purchased from the Treasury Department of the United States of America or in the open market, in either case at interest rates and prices which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, not to exceed the applicable yield permitted by such provisions.

THE BONDS

Details of the Bonds

The Bonds will be dated their date of delivery, and will be issued in fully registered form without coupons, in the denomination of $5,000 or any integral multiple of $5,000. The Bonds will mature serially on May 1 of the years, and will bear interest at the rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the inside cover page hereof, payable on May 1 and November 1 of each year, commencing November 1, 2008 (each an "interest payment date").

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in Book-Entry form only under the Book-Entry system described herein (the "Book-Entry System"), in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interests in the Bonds. Principal of and interest on the Bonds will be paid by the Registrar and Paying Agent for the Bonds (initially the Director of Finance of the State of Hawaii) to DTC, which will in turn remit such principal and interest to its Participants (as hereinafter defined), for subsequent distribution to the Beneficial Owners (as hereinafter defined) of the Bonds, as described herein. The Bonds may be transferred or exchanged in the manner described in the Bonds and as referenced in related proceedings of the State. See "Book-Entry System" in Appendix G hereto. If the State ceases to use the Book-Entry System, the Director of Finance may select a different Registrar and Paying Agent to perform such payment and registration functions.

Optional Redemption of Bonds

The Series DK Bonds maturing after May 1, 2018 will be subject to redemption at the option of the State at any time on and after May 1, 2018, in whole or in part, in any order of maturity selected by the State and by lot within a maturity, at a price equal to the principal amount thereof plus accrued interest to the redemption date. The Series DL and the Series DM Bonds are not subject to optional redemption by the State prior to their respective stated maturities.

In selecting such Bonds for redemption by lot, each Bond in a denomination of $5,000 and each $5,000 principal portion of a Bond in a denomination in excess of $5,000 will have equal probability of being selected for redemption. If any Bond is of a denomination in excess of $5,000, portions of the principal sum thereof in installments of $5,000 or any integral multiple thereof may be redeemed.

If any Bond (or any portion of the principal sum thereof) shall be redeemable and shall have been duly called for redemption and notice of such redemption shall have been duly given as provided in the Bond Issuance Certificate, and if on or before the date fixed for such redemption the State shall have duly made or provided for the payment of the principal sum thereof to be redeemed, the premium, if any, payable upon such redemption and the interest accrued on the principal sum to be redeemed to the date fixed for such redemption, then such Bond (or the portion of the principal sum thereof to be redeemed) shall become due and payable upon such date fixed for redemption and interest shall cease to accrue and become payable from and after the date fixed for such redemption on the principal sum thereof to be redeemed.

Notice of redemption will be mailed, not fewer than 30 days prior to the fixed date for redemption, to each holder of a Bond in whose name such bond is registered upon the Bond Register as of the close of business on the forty-fifth day (whether or not a business day) next preceding the date fixed for redemption at such Holder's address as shown on such Bond Register. Failure of the Holder of a Bond to receive such notice by mail or any defect in such notice will not affect the sufficiency of the proceedings for the redemption of any Bond.

SECURITY FOR THE BONDS

Security Provisions

Under the Constitution and the laws of the State, the payments of principal of and interest on general obligation bonds of the State, including the Bonds, shall be a first charge on the General Fund of the State. Under said laws, the full faith and credit of the State are pledged to the punctual payment of the principal of and interest on general obligation bonds of the State, including the Bonds. At the beginning of each month, the Director of Finance of the State transfers from the General Fund into a special reserve account the amount of interest due and principal maturing during that month on the issued and outstanding general obligation bonds of the State, including the Bonds. The special reserve account is used to pay the debt service on such general obligation bonds, including the Bonds, and any balance in said account is held for that sole purpose.

Market Risk

There can be no assurance of continued marketability of the Bonds at the current price level. Various factors affect the market value of municipal securities, including the Bonds, over most of which the State has no control, such as general economic conditions, inflation, federal economic policies, interest rate trends and proposed or actual changes to the Internal Revenue Code of 1986. State finances, future State legislative actions and bond ratings may also affect the market value of the Bonds.

Sovereign Immunity

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state of the Union (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself. However, such waiver and consent may subsequently be withdrawn by the state. Such immunity from and constitutional prohibition against suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that, in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against State officials to enforce such payment. The State has never defaulted in the payment of either principal of or interest on any indebtedness of the State.

THE STATE OF HAWAII

Certain general information concerning the State of Hawaii is contained in Appendix A to this Official Statement. Selected financial information concerning the State of Hawaii, including information about the State's outstanding indebtedness and its revenue projections, is contained in Part I of Appendix B to this Official Statement. Part II of Appendix B contains the General Purpose Financial Statements and related General Fund schedules excerpted from the Comprehensive Annual Financial Report of the State of Hawaii for the State's fiscal year ended June 30, 2007. The Underwriters (as hereinafter defined) and their counsel have not independently verified any of such information, nor have they made an independent determination of the financial position of the State. There can be no assumption that the information is indicative of the current financial position or future financial performance of the State.

PENDING LITIGATION

There is currently no pending litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or in any other manner affecting the validity of the Bonds or the proceedings or authority pursuant to which they are to be sold and issued.

Office of Hawaiian Affairs and Ceded Lands

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") to the State of Hawaii (the "State") to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs ("OHA") to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki*"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of moneys which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii*, et al., Civil No. 94-0205-01 (1st Cir.) ("*OHA I*")), claiming that the amount paid to OHA was inadequate and alleging that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys it receives from (i) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively, the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the moneys it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justiciability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. During the 2003 legislative session, the Legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in *OHA I* was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of

Transportation ("DOT") issued a report (the "IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing (the "FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 (the "DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act ("Section 340") essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5 and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement is contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill is changed, with the written approval of OHA and the Governor. The Legislature did not pass two bills for such purpose during its 2007 Session.

In a second lawsuit, OHA and four individuals filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC," since succeeded by the Hawaii Housing Finance and Development Corporation, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December, 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ing] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." The plaintiffs are expected to request attorneys' fees and the State expects to oppose the request. Seeking a reversal of the January 31, 2008 decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008 with the United States Supreme Court.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the "HHA," since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged after the filings of the second and third lawsuits described above into the Housing and Community Development Corporation of Hawaii, which, as more fully described under "GENERAL ECONOMIC INFORMATION—State Housing Programs" in Appendix A, subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority. The Hawaii Housing Finance and Development Corporation has replaced the HFDC as a defendant in the second lawsuit, and the Hawaii Public Housing Authority has replaced the HHA as a defendant in the third lawsuit.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. The Attorney General is of the view that the claims asserted by OHA in *OHA II* are without merit. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

In 1991, the Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which: (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the "Panel") to provide the Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by November 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the Legislature's response to the Panel's recommendations.

Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999. As of September 30, 1999, the Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the Legislature. In 1997, the Legislature declared its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Ch. 674. *Kalima et al. v. Cayetano*, Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999 and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chs. 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Ch. 661. *Kalima et al. v. State of Hawaii et al.*, Civil No. 99-4771-12VSM (1st Cir.) ("*Kalima I*"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (3rd Cir.); *Silva v. State of Hawaii, et al.*, Civil No. 99-4775-12 (1st Cir.); *Wilhelm v. State of Hawaii, et al.*, Civil No. 99-4774-12 (1st Cir.); *Williamson v. State of Hawaii, et al.*, Civil No. 99-4773-12 (1st Cir.); *Hanohano v. State of Hawaii, et al.*, Civil No. 99-4772-12 (1st Cir.). The plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiffs Hanohano Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named plaintiffs in *Kalima I* filed a second class action lawsuit in the state circuit court for declaratory and injunctive relief, and for damages under HRS Ch. 673, for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Ch. 674. *Kalima et al. v. State of Hawaii, et al.*, Civil No. 00-1-1041-03 (1st Cir.) ("*Kalima II*"). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II*.

On August 30, 2000, the circuit court entered an order in *Kalima I* granting plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying the State's motion for judgment on the pleadings. Essentially, the circuit court rejected the sovereign immunity, lack of subject matter jurisdiction, and no-cause of action defenses the State asserted, and ruled that the plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chs. 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court and entered an order staying all proceedings in *Kalima I* pending the Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. Since then, the State has secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided can be reviewed by the Supreme Court prior to trial. By an opinion issued June 30, 2006, the Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Ch. 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Ch. 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly ultra vires rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) defectively constructed homes or infrastructure, (6) being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first. Trial on the waiting subclass' claims is scheduled to begin on October 6, 2008.

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007 but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina Kawamura in her official capacity as the State's Director Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the Department of Hawaiian Home Lands ("DHHL") and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The *Nelson* plaintiffs allege all defendants have breached their duties under article XII, sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of article XII, sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act")by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, plaintiffs ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time.

The plaintiffs also ask the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease at the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in *Nelson.* The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the claims in plaintiffs' favor in *Nelson* could have a material adverse effect on the State's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii,* Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of ten percent for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346.9 million plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The Plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervenor defendants.

Plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the Plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the Plaintiffs and ERS trustees, and denying the Plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervenor defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by Plaintiffs and the ERS trustees on October 27, 2003. The State cross-appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervenor defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The Plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the Plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated article XVI, section 2 of the Hawaii Constitution and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in article XVI, section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;...Act 100 retroactively divested the ERS of $346.9 million of employer contributions for 1997, 1998 , and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and...Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims.

A description of the ERS and Act 100 is provided under "EMPLOYEE RELATIONS: STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System" in Appendix A.

Other

On April 14, 2008, in *Hawaii Insurers Council v. Lingle*, __ P.3d __, 2008 WL 1708015 (Haw.App., April 14, 2008) (No. 27840), the Hawaii Intermediate Court of Appeals ruled that past assessments of insurers by the Insurance Division of the Department of Commerce and Consumer Affairs were unlawful taxes rather than regulatory fees. This ruling may impact other specially funded state programs. The State is currently unable to predict with reasonable certainty the magnitude of the impact of this ruling on its specially funded state programs, if any. The State is considering appealing this ruling to the Hawaii Supreme Court. The State deposits such assessments upon collection into its Special Fund, which is not a source of payment for the Bonds. See "TAX

STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL—Special Fund" in Part I of Appendix A.

The State has also been named as a defendant in numerous other lawsuits and claims arising in the normal course of operations.

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series DK Bonds and the Series DL Bonds (including original issue discount treated as interest, if any) (i) is excluded from gross income for federal income tax purposes and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series DK Bonds and the Series DL Bonds, however, will be included in the "adjusted current earnings" (i.e., alternative minimum taxable income as adjusted for certain items, including those times that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Internal Revenue Code of 1986, as amended (the "Code")) of certain corporations and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Series DK Bonds and the Series DL Bonds. The State has covenanted to comply with certain restrictions, conditions and requirements designed to assure that interest on the Series DK Bonds and the Series DL Bonds will not become includible in gross income. Failure to comply with these covenants may result in interest on such Bonds being included in gross income retroactively from the date of issue of such Series DK Bonds and Series DL Bonds. The opinion of Bond Counsel assumes compliance with such covenants.

Although Bond Counsel has rendered an opinion that interest on the Series DK Bonds and the Series DL Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Series DK Bonds and the Series DL Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Series DK Bonds and the Series DL Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing or owning the Series DK Bonds and the Series DL Bonds.

In the further opinion of Bond Counsel, under the existing laws of the State, the Series DK Bonds, the Series DL Bonds and the Series DM Bonds and the income therefrom are exempt from all taxation in the State of Hawaii or any county or any other political subdivision thereof, except inheritance, transfer and estate taxes, provided that no opinion is expressed with respect to the franchise tax imposed on banks and other financial institutions.

Bond Counsel expresses no opinion as to whether the interest on the Series DM Bonds is exempt from federal income taxation.

A copy of the proposed form of opinion of Bond Counsel with respect to the Bonds is attached as Appendix F to this Official Statement.

Tax Treatment of Original Issue Discount

Certain of the Series DK Bonds and of the Series DL Bonds are being sold at a discount (collectively, the "Discounted Obligations"), i.e., the yields on such Series DK Bonds and Series DL Bonds are greater than their stated interest rates. The difference between the initial public offering prices, as set forth on the inside cover page hereof, of the Discounted Obligations and their stated amounts to be paid at maturity or upon prior redemption, constitutes original issue discount treated as interest which is not includible in gross income for federal income tax purposes and is exempt from all taxation in the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer and estate taxes, and the franchise tax imposed on banks and other financial institutions, subject to the caveats and provisions described above.

In the case of an owner of a Discounted Obligation, the amount of original issue discount which is treated as having accrued with respect to such Discounted Obligation is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of a Discounted Obligation (including its sale, redemption or payment at maturity). Amounts received upon disposition of a Discounted Obligation which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discounted Obligation, on days which are determined by reference to the maturity date of such Discounted Obligation. The amount treated as original issue discount on a Discounted Obligation for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such Discounted Obligation (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discounted Obligation at the beginning of the particular accrual period if held by the original purchaser, (b) less the amount of any interest payable for such Discounted Obligation during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discounted Obligation the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If a Discounted Obligation is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

The Code contains additional provisions relating to the accrual of original issue discount in the case of owners of a Discounted Obligation who purchase such Discounted Obligations after the initial offering. Owners of Discounted Obligations including purchasers of the Discounted Obligations in the secondary market should consult their own tax advisors with respect to the determination for federal income tax purposes of original issue discount accrued with respect to such obligations as of any date and with respect to the state and local tax consequences of owning a Discounted Obligation.

Tax Treatment of Original Issue Premium

Certain of the Series DK Bonds and of the Series DL Bonds are being sold at a premium (collectively, the "Premium Obligations"), i.e., the yields on such Series DK Bonds and Series DL Bonds are less than their stated interest rates. An amount equal to the excess of the issue price of a Premium Obligation over its stated redemption price at maturity constitutes premium on such Premium Obligation. An initial purchaser of such Premium Obligation must amortize any premium over such Premium Obligation's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Obligations callable prior to their maturity, by amortizing the premium to the call date, based upon the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, it offsets the interest allocable to the corresponding payment period and the purchaser's basis in such Premium Obligation is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Obligation prior to maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of Premium Obligations should consult with their own tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning such Premium Obligation.

Future Legislation

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. An example of such litigation is the case of *Davis v. Kentucky Department of Revenue*, 197 S.W.3d 557 (2006), the oral argument for which was heard by the U.S. Supreme Court on November 5, 2007 with a decision expected to be rendered in the spring of 2008, challenging Kentucky's taxation of bonds issued by other states and their political subdivisions differently than it taxes bonds issued by Kentucky and its political subdivisions. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Kutak Rock LLP, Bond Counsel to the State. The form of the opinion Bond Counsel proposes to render is set forth in Appendix F hereto. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP.

RATINGS

Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have given the Bonds the ratings of "AA," "Aa2" and "AA," respectively, based on the credit of the State. The State furnished the rating agencies with certain information and materials relating to the Bonds and the State which have not been included in this Official Statement. Generally, a rating agency bases its rating on the information and materials so furnished and on investigations, studies and assumptions made by such rating agency. Such ratings reflect only the respective views of such rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. There is no assurance that any of such ratings will be retained for any given period of time or that the same will not be revised downward, suspended or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. The State undertakes no responsibility to oppose any such downward revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Citigroup Global Markets Inc. and UBS Securities LLC (collectively, the "Underwriters") have agreed to purchase the Bonds at an aggregate purchase price equal to the principal amount of the Bonds, plus a net original issue premium of $20,674,415.85 and less an aggregate underwriting discount of $1,401,356.78. The Underwriters will be obligated to purchase all of the Bonds if any are purchased.

The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than the public offering prices appearing on the inside cover, and the public offering prices may be changed from time to time.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performances or achievements described to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. The State does not plan to issue any updates or revisions to those forward-looking statements if and when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur, unless such updates or revisions are made in the course of fulfilling its continuing disclosure obligation, as described under "CONTINUING DISCLOSURE."

CONTINUING DISCLOSURE

The State will enter into a Continuing Disclosure Certificate (the "Disclosure Certificate") in the form set forth in Appendix E hereto, for the benefit of the holders and Beneficial Owners of the Bonds, agreeing to provide certain financial information and operating data relating to the State to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). See "APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The State has not failed to comply with any of its previous continuing disclosure certificates under the Rule. A failure by the State to comply with the Disclosure Certificate will not constitute an event of default of the Bonds, although any Bondholder or any Beneficial Owner may bring action to compel the State to comply with its obligations under the Disclosure Certificate. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

FINANCIAL STATEMENTS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 2007, included as Part II of Appendix B, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein, which is based in part on the reports of other auditors. The State has neither requested nor obtained the consent of Deloitte & Touche LLP to include their report, and such firm has performed no procedures subsequent to rendering their report. There can be no assurance that the information in Part II of Appendix B is indicative of the current financial position or future financial performance of the State.

MISCELLANEOUS

To the extent any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they 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 that may have been made verbally or in writing, is to be construed as a contract with the holders of any of the Bonds. The Department of Budget and Finance, State of Hawaii has prepared this Official Statement and has duly authorized the delivery hereof.

APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

The statistical information presented by this Appendix A is the most current information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.

INTRODUCTION

General

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, and 1,211,537 in 2000, making the State the forty-second most populous state in the Union as of 2000. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2000 U.S. Census, about 72.3% of the population of the State lives on Oahu. Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. Based on the 2000 U.S. Census, approximately 41.6% of the State's population is of Asian descent and about 24.3% of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 9.4% of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

State Government

The Constitution of the State provides for three separate branches of government: the legislative branch, the executive branch and the judicial branch. The legislative power is vested in a bicameral Legislature consisting of a Senate of twenty-five members elected for four-year terms and a House of Representatives of fifty-one members elected for two-year terms. The Legislature convenes annually. The executive power is vested in a Governor elected for a four-year term. In the event of the absence of the Governor from the State, or his or her inability to exercise and discharge the powers and duties of his or her office, the Lieutenant Governor, also elected for a four-year term, serves as the chief executive. Under the Constitution, the judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court. The executive and administrative offices are limited to not more than twenty principal departments under the supervision of the Governor. The executive functions have in fact been grouped into eighteen departments. The heads of the departments are appointed by the Governor, with the advice and consent of the Senate, and hold office for a term to expire with the term of the Governor. The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of said department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's proposed six-year program and financial plan, the State budget, and financial management programs of the State.

The Counties and Their Relationship to the State

There are four counties in the State: the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai (and one quasi-county, Kalawao). Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. There are no independent or separate cities or other municipalities, school districts or townships. The State government of Hawaii has total responsibility for many functions that are performed by or shared by local governments in most other parts of the United States. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary. The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

DEBT STRUCTURE

Types of Bonds Authorized by the Constitution

The Constitution of the State empowers the Legislature to authorize the issuance of four types of bonds (defined by the Constitution as bonds, notes and other instruments of indebtedness): general obligation bonds (defined by the Constitution as all bonds for the payment of the principal and interest for which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, including reimbursable general obligation bonds hereinafter defined); bonds issued under special improvement statutes; revenue bonds (defined by the Constitution as all bonds payable from revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law); and special purpose revenue bonds (defined by the Constitution as all bonds payable from rental or other payments made to an issuer by a person pursuant to contract and secured as may be provided by law). Under the Constitution, special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist, manufacturing, processing or industrial enterprises, certain not-for-profit private schools, utilities serving the general public, health care facilities provided to the general public by not-for-profit corporations, early childhood education and care facilities provided to the general public by not-for-profit corporations, or low and moderate income government housing programs. All bonds of the State other than special purpose revenue bonds must be authorized by a majority vote of the members to which each house of the Legislature is entitled. Special purpose revenue bonds of the State must be authorized by two-thirds vote of the members to which each house of the Legislature is entitled.

Outstanding Indebtedness and Debt Limit

The Constitution provides that determinations of the total outstanding indebtedness of the State and the exclusions therefrom shall be made annually and certified by law or as prescribed by law. General obligation bonds may be issued by the State, provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds in the current or any future fiscal year, whichever is higher, to exceed a sum equal to 18.5% of the average of the General Fund revenues of the State in the three fiscal years immediately preceding such issuance. For the purposes of such determination, General Fund revenues of the State do not include moneys received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded in computing the total indebtedness of the State.

In order to carry out the provisions contained in the Constitution, the Legislature enacted Part IV of Chapter 39, HRS ("Part IV"), to require the Director of Finance to prepare statements of the total outstanding indebtedness of the State and the exclusions therefrom and of the debt limit of the State evidencing the power of the State to issue general obligation bonds and, prior to the issuance of any general obligation bonds, to find that the issuance of such bonds will not cause the debt limit of the State to be exceeded. Part IV provides that such statements shall be prepared as of July 1 of each year and submitted to the Legislature no later than December 1 of such year. The July 1, 2007 statement is the most recent such statement prepared and submitted to the Legislature. See "INFORMATION ABOUT INDEBTEDNESS" in Part I of Appendix B for a tabular summary of the statement of total outstanding indebtedness of the State and exclusions therefrom as of July 1, 2007, including general obligation bonded indebtedness, revenue bonded indebtedness, special assessment bonded indebtedness and special purpose revenue bonded indebtedness, and the permitted exclusions from the general obligation bonded indebtedness. See "APPENDIX D—GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII."

The summary statement of debt limit of the State evidencing the power of the State to incur indebtedness sets forth the General Fund revenues of the State, exclusive of federal grants, for the fiscal years ended June 30, 2005, 2006 and 2007 and the net General Fund revenues after required exclusions, the average of the said three fiscal years, and the limit of total principal and interest which may be payable in any fiscal year. See "SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII" in Part I of Appendix B. The greatest amount of principal and interest payable in any fiscal year on the outstanding general obligation indebtedness as of March 1, 2008 and on the Bonds, after exclusions therefrom permitted by the Constitution, is $572,303,032 in the fiscal year ending June 30, 2009. A summary of debt service on all general obligation bonded indebtedness of the State is set forth in the under "SUMMARY OF DEBT SERVICE" in Part I of Appendix B; however, the debt service excluded in that table includes all general obligation bonds for which reimbursement is made regardless of whether such bonds may be excluded under the Constitution.

As calculated from the State Comptroller's Bond Fund report as of January 31, 2008, the amount of authorized but unissued general obligation bonds (including the Bonds) is $1,327,810,712. These bonds are scheduled to be issued prior to June 30, 2009. The Governor has proposed that the Legislature authorize approximately $1 billion of additional general obligation bonds for issuance through fiscal year 2011. The Governor's proposal is before the Legislature, which is now in session. In addition, the Legislature has pending before its current session a number of bills that would authorize State bonded indebtedness, including indebtedness that would be included in the debt limit calculation. It is uncertain whether or to what extent the Legislature will enact the Governor's proposal or the other such bills now on file in the current session.

Exclusions

The Constitution contains nine general provisions excluding certain types of bonds (including certain general obligation bonds) when determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision. Six of these exclusions are described below. As stated above, the limitation on indebtedness of the State under the Constitution applies only to the power to issue general obligation bonds, and the limitation is measured by the debt service on general obligation bonds against the three year average of General Fund revenues. The three exclusions relating to revenue bonds, special purpose revenue bonds, and bonds issued under special improvement statutes for which the only security is the properties benefited or assessments thereon are chiefly of concern to counties when computing the funded debt of such counties. Accordingly, those provisions will not be discussed in this Official Statement. However, the complete provisions of Sections 12 and 13 of Article VII of the Constitution relating to the incurring of indebtedness by the State and its political subdivisions are set forth in Appendix C to this Official Statement.

One of the nine exclusionary provisions excludes bonds that have matured, or that mature in the then current fiscal year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then current fiscal year, or for the full payment of which moneys or securities have been irrevocably set aside.

Another of the exclusionary provisions excludes reimbursable general obligation bonds (defined in the Constitution as general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the General Fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the General Fund is required by law to be made from the revenues of the political subdivision) issued for a public undertaking, improvement or system, but only to the extent that reimbursements to the General Fund are made from net revenues, or net user tax receipts, or both, derived from the particular undertaking, improvement or system for the immediately preceding fiscal year, with the result that the amount of reimbursable general obligation debt excluded will vary from year to year. A "user tax" is defined by the Constitution as a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from the consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking, improvement or system. Thus, for example, the aviation fuel tax is a user tax insofar as the airports system of the State is concerned, since the tax is substantially derived from the sale of a good (aviation fuel) in the utilization of the functions of the airports, but the aviation fuel tax would not be a user tax so far as schools or a stadium is concerned, since the tax is not derived from the consumption or use or sale of goods in using schools or a stadium.

Two other exclusionary provisions exclude (a) reimbursable general obligation bonds of the State issued for any political subdivision, but only if reimbursement by the political subdivision to the State for the payment of the principal and interest is required by law and (b) general obligation bonds issued for assessable public improvements to the extent reimbursements to the General Fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

One other exclusionary provision excludes bonds constituting instruments of indebtedness under which the State incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed 7% of the principal amount of outstanding general obligation bonds not otherwise excluded by the exclusionary provisions of the Constitution and subject to the condition that the State shall establish a reserve in an amount in a reasonable proportion to outstanding loans guaranteed by the State. This exclusion is intended to permit the exclusion of such items as general obligation guarantees of loans under State loan programs to the extent the principal amount of such items does not exceed 7% of the outstanding principal amount of general obligation bonds not otherwise excluded. At such time as the principal amount of such items exceeds 7% of the outstanding principal amount of general obligation bonds not otherwise excluded, the potential debt service on all such items in excess of 7% of the outstanding principal amount of general obligation bonds not otherwise excluded would be included in determining the power of the State to incur indebtedness.

A final exclusionary provision excludes bonds issued by or on behalf of the State or a political subdivision to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year, and bonds issued by or on behalf of the State to suppress insurrection, to repel invasion, to defend the State in war or to meet emergencies caused by disaster or act of God.

Other Constitutional and Statutory Provisions

General obligation bonds of the State must be authorized pursuant to the Constitution by a majority vote of the members to which each house of the Legislature is entitled. The Legislature from time to time enacts laws specifying the amount of such bonds (without fixing any particular details of such bonds) that may be issued and defining the purposes for which the bonds are to be issued.

The Constitution requires that general obligation bonds of the State with a term exceeding two years shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal installments of both principal and interest, the first installment of principal to mature not later than five years from the date of the issue of such series and the last installment to mature not later than twenty-five years from the date of such issue, except that the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds and on bonds constituting instruments of indebtedness under which the State or a political subdivision incurs a contingent liability as a guarantor shall mature not later than thirty-five years from the date of such issue.

Part I of Chapter 39, HRS, as amended, is the general law for the issuance of general obligation bonds of the State. Such part sets forth limitations on general obligation bonds, such as interest rates and maturity dates, and also sets forth the provisions for the sale and form of such bonds. Such part provides that the Director of Finance, with the approval of the Governor, may issue from time to time general obligation bonds of the State in accordance with acts of the Legislature authorizing the issuance of such bonds and defining the purposes for which such bonds are to be issued.

The Governor determines when the projects authorized by the acts authorizing bonds shall commence. General obligation bonds are sold from time to time pursuant to the authorization of such acts and Part I of Chapter 39, HRS, as amended, in order to finance the projects. The Governor then allots the proceeds of the bonds so issued to the purposes specified in the acts authorizing bonds.

Section 11 of Article VII of the Constitution provides that all appropriations for which the source is general obligation bond funds or the General Fund must be for specified periods which may not exceed three years, except for appropriations from the State Educational Facilities Improvement Special Fund. Any appropriation or any portion of an appropriation which is unencumbered at the close of the fiscal period for which the appropriation is made will lapse, provided that no appropriation or portion thereof for which the source is general obligation bond funds shall lapse if the Legislature determines that such appropriation is necessary to qualify for federal aid financing and reimbursement. A general obligation bond authorization, to the extent such authorization is dependent on a specific appropriation, must be reduced in an amount equal to the amount of appropriation lapsed by operation of law or Section 11 of Article VII of the Constitution.

Set forth in Appendix C to this Official Statement are the provisions of Sections 11, 12 and 13 of Article VII of the Constitution applicable to the incurring of indebtedness by the State and its political subdivisions.

Financing Agreements (Including Leases)

Chapter 37D, HRS, provides for financing agreements (including leases and installment sale agreements) for the improvement, use or acquisition of real or personal property which is or will be owned or operated by the State or any State agency and specifies that any such financing agreement shall not be an obligation for which the full faith and credit of the State or any state agency is pledged, and that no moneys other than amounts appropriated by the Legislature or otherwise held in trust for such purposes shall be required to be applied to the payment thereof. The Legislature is not required to appropriate moneys for such purpose, and financing agreements do not constitute "bonds" within the meaning of Sections 12 or 13 of Article VII of the Constitution. Chapter 37D does provide that the Governor's Executive Budget shall include requests to the Legislature for appropriation of moneys to pay amounts due each fiscal period under financing agreements.

Reimbursement to State General Fund for Debt Service

As indicated above, all general obligation bonds of the State are payable as to principal and interest from the General Fund of the State. Acts of the Legislature authorizing the issuance of general obligation bonds for certain purposes frequently (but not always) require that the General Fund be reimbursed for the payment from such fund of the debt service on such bonds, such reimbursement to be made from any income or revenues or user taxes derived from the carrying out of such purposes. Such income or revenues or user taxes are not pledged to the payment of such bonds. There are now outstanding general obligation bonds (including general obligation refunding bonds) issued for highway, harbor and airport facilities, for land development, for economic development projects, for university revenue projects, and for State parking facilities, where the General Fund of the State is required to be reimbursed for all debt service, and for the housing program, where the General Fund is required to be reimbursed for interest only. Reimbursement is made from the income or revenues or user taxes derived from or with respect to such highways, harbor and airport facilities, land development, economic development projects, university projects, parking facilities and housing programs. Of the bonds referred to in this paragraph: (a) reimbursement to the General Fund of general obligation bonds issued for highways is made exclusively from the tax on motor fuel and does not include any revenues such as toll revenue; and (b) reimbursement to the General Fund of general obligation bonds issued for airports is made from the aviation fuel tax as well as from airports system revenues. See "TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL—Special Fund" for a description of such taxes. Reimbursement to the General Fund of all the other general obligation bonds referred to in this paragraph is made from non-tax revenues, such as from wharfage and dockage charges, pier rentals and other charges for harbor facilities; from land sales or rentals; and from dormitory and dining hall revenues and income from other ancillary facilities.

Some of the bonds referred to in the immediately preceding paragraph do not constitute "reimbursable general obligation bonds" excludable from the debt limit because they are not issued for the type of public undertaking, improvement or system to which the constitutional provisions for such exclusion pertain. See "DEBT STRUCTURE—Exclusions." See "GENERAL OBLIGATION BONDS OUTSTANDING" in Part I of Appendix B for a tabular summary of reimbursable and non-reimbursable general obligation bonds.

TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL

Introduction

The State Constitution requires the establishment of a tax review commission to be appointed as provided by law every five years. The purpose of such commission is to submit to the Legislature an evaluation of the State's tax structure and to recommend revenue and tax policy, after which such commission is dissolved. The Constitution does not require action by the Legislature with respect to the recommendations as submitted. The Legislature has the option of accepting or rejecting all or portions of the commission's findings. The fifth tax review commission convened on July 26, 2005, and issued its report in final form on December 1, 2006, in which it concluded that the Hawaiian tax system is "basically sound."

The taxes described below account for substantially all of the tax revenues of the State and are subject in all cases to subsequent legislation. The Department of Taxation, headed by the Director of Taxation, is charged with the responsibility of administering and enforcing the tax revenue laws and the collection of all taxes and other payments payable thereunder. All tax revenues of the State are credited to one or the other of the two operating funds maintained by the State, designated respectively as the General Fund and the Special Fund. The revenues and expenditures for the last five fiscal years of these two funds are set forth hereinafter.

The State Constitution does not prohibit or limit the power of taxation and reserves all taxing power to the State, except to the extent delegated by the Legislature to the political subdivisions of the State and except all the functions, powers and duties related to real property taxation, which shall be exercised exclusively by the counties. The State cannot predict the impact, if any, of proposed changes in the federal individual and corporate income tax laws on the tax revenues of the State.

General Fund

The General Fund is used to account for resources not specifically set aside for special purposes. Any activity not financed through another fund is financed through the General Fund. The appropriations acts adopted by the Legislature provide the basic framework in which the resources and obligations of the General Fund are accounted. The operating appropriations and the related General Fund accounting process complement each other as basic control functions in the general administration of the government.

The Constitution provides that whenever the General Fund balance at the close of each of two successive fiscal years exceeds 5% of General Fund revenues for each of the two fiscal years, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. The Constitution does not specify the amount of, or a formula for calculating, any such tax refund or tax credit. Because the fiscal year 2006 and 2007 fund balances exceeded 5% of General Fund revenues for those years, the two-successive-fiscal-year criterion was met and the 2008 Legislature will be required to provide for a tax refund or tax credit.

As part of the annual financial planning and executive budgeting process, the Department of Budget and Finance makes projections of the General Fund revenues and expenditures for each fiscal year and revises such projections from time to time during the fiscal year. See "REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—General Fund Financial Plan" in Part I of Appendix B for further information.

Taxes and Other Amounts Deposited in General Fund

The proceeds of the taxes described below are deposited in the General Fund. See "REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—Actual Tax Collections and Distributions" in Part I of Appendix B.

Individual and corporate income taxes, general excise and use taxes, public service company taxes, estate and certain transfer taxes, a franchise tax on financial corporations, liquor and tobacco taxes, and certain insurance premium taxes, which for fiscal year 2007 represented approximately 90% of all tax revenues of the State, are deposited to the General Fund. The individual income tax rates for married or unmarried individuals, including Head of Household as well as estates and trusts, range from 1.4% to 8.25% of taxable income. Corporate income tax rates range from 4.4% to 6.4%. The general excise (gross income) tax is a business privilege tax measured by the application of rates against values of products, gross proceeds of sales or gross income. The use tax is an excise tax levied on tangible personal property, contracting, or services imported or purchased from an unlicensed seller for resale or use in the State. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable. Effective January 1, 2007, the City and County of Honolulu surcharge of ½ of 1% is imposed upon Oahu activities subject to the 4% General Excise and Use Taxes. The State retains, as General Fund realizations, 10% of the county surcharge collected to reimburse the costs of assessment, collections and disposition incurred by the State. The Public Service Company tax is a tax measured by the gross income from public utility business of public utilities. The estate and transfer tax is a tax on the transfer of a taxable estate and a generation skipping transfer equal to the federal credit for state death taxes allowed by the Section 2011 of the Code and a federal credit for state taxes allowed by Section 2604 of the Code. From January 1, 2005 to December 31, 2010, the federal credit was repealed and replaced with a deduction for state death taxes. Hawaii's estate and transfer tax is currently not effective for decedents dying after December 31, 2004 and before December 31, 2010. The franchise tax is a tax measured by the taxable income of banks and other financial corporations. There is an excise tax on those who sell or use tobacco products and a gallonage tax imposed on dealers who sell or use liquor.

Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, grants, charges for administrative services and other sources. In fiscal year 2007, these non-tax revenues comprised approximately 11% of total deposits to the General Fund.

In addition, transient accommodations, conveyance and fuel taxes are allocated among various funds and to the counties. The transient accommodations tax of 7.25% is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time share vacation units.

Special Fund

The Special Fund, which for accounting purposes is actually composed of many accounts, is used to account for revenues designated for particular purposes. The Special Fund is often of the same nature as the General Fund, the distinguishing characteristic being that the accounts in the Special Fund have legislative or other limitations imposed upon their use. The Special Fund is not a source of payment for the Bonds. The Special Fund is used primarily and extensively with regard to highway construction and maintenance, harbor and airport operations, hospital operations, housing and homestead programs, certain programs in the area of public education and the University of Hawaii, business regulation, consumer protection, environmental management and tourism and other economic development. The types of revenues credited to the various accounts in the Special Fund are user tax receipts (fuel taxes), revenues from public undertakings, improvements or systems (airports, harbors and university revenue-producing undertakings, among others), and various business, occupation and non-business licenses, fees and permits.

The proceeds of the taxes described below are deposited in the Special Fund. See "REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—Actual Tax Collections and Distributions" in Part I of Appendix B.

Fuel taxes, rental motor vehicle and tour vehicle surcharge taxes, motor vehicle taxes and unemployment insurance taxes are deposited into the Special Fund. In fiscal year 2007 those taxes were 6.6% of the total tax revenues of the State. Distributors are required to pay taxes on aviation fuel, diesel oil, alternative fuels for operation of an internal combustion engine and on liquid fuels other than the foregoing, e.g., on gasoline used to operate motor vehicles upon the public highways. There is a rental motor vehicle surcharge tax on a rented or leased motor vehicle. The tax is levied on the lessor. There is also a tour vehicle surcharge tax for each tour vehicle in the over 25-passenger seat category and for each tour vehicle in the 8- to 25-passenger seat category. The tax is levied on the tour vehicle operator. The State has a vehicle weight tax that varies from $0.0075 per pound to $0.0125 per pound, depending on the net weight of the vehicle; vehicles over ten thousand pounds net weight are taxed at a flat rate of $150.00. The unemployment insurance tax is a tax on wages paid by employing units with one or more employees with certain exemptions. The unemployment tax rate is determined according to a multi-contribution schedule system. There is an additional employment and training fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .01%.

Federal Grants

State departments, agencies, and institutions annually receive federal grants. These amounts account for about 15% of the total State budget for each year, but are not a source of payment for the Bonds. Approximately 53% of the federal grants are awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 28% of such federal funds are used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 8% of all federal funds, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, account for about 4% of such federal receipts. Other programs account for the balance of such receipts. In fiscal year 2004, the State received a one-time federal grant of $50 million from the Jobs and Growth Tax Relief Reconciliation Act of 2003. The following table details the annual federal grants for the indicated fiscal years to the State's departments, agencies and institutions.

Fiscal Year Ended June 30	Grant Amount (in millions)
2000	$1,142.3
2001	1,213.4
2002	1,382.2
2003	1,590.8
2004	1,724.9
2005	1,830.6
2006	1,877.4
2007	2,009.8

Source: State of Hawaii—Department of Accounting and General Services.

Budget System

Pursuant to the Executive Budget Act of 1970, the Planning, Programming and Budgeting System of the State was adopted. The purpose of this act is to integrate the planning, programming and budgeting processes to improve decisions on the allocation of resources. The act established a comprehensive system for State programs and their related costs over a time frame of six years. The operating and capital improvement requirements are evaluated together to insure compatibility and mutual support. Systematic evaluations and analyses are conducted to ascertain the attainment of program objectives and alternative means or methods of improving current State services. The act provides that the Director of Finance and the Governor may modify or withhold planned expenditures if such expenditures would be in excess of authorized levels of service or in the event that State receipts and surpluses would be insufficient to meet authorized expenditure levels.

The Legislature convenes annually in regular session on the third Wednesday in January. Regular sessions are limited to a period of 60 days, and special sessions are limited to a period of 30 days. Any session may be extended by no more than 15 days. At least 30 days before the Legislature convenes in regular session in an odd-numbered year, the Governor shall submit to the Legislature the Governor's proposed State budget of the executive branch for the ensuing fiscal biennium. The budgets of the judicial branch, the legislative branch, and the Office of Hawaiian Affairs are submitted by their respective leaders to the Legislature for its consideration. In such regular session, no appropriation bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the bill authorizing the operating expenditures for the executive branch for the ensuing fiscal biennium, to be known as the general appropriations bill, shall have been transmitted to the Governor.

In each regular session in an even-numbered year, the Governor may submit to the Legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill. In such session to which the Governor submits to the Legislature a supplemental appropriations bill, no other appropriations bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the supplemental appropriations bill shall have been transmitted to the Governor. To become law, a bill must pass three readings in each house on separate days.

Each bill passed by the Legislature shall be certified by the presiding officers and clerks of both houses and thereupon be presented to the Governor. If the Governor approves and signs the bill, it becomes law. If the Governor does not approve a bill, the Governor may return it, with the Governor's objections, to the Legislature. Except for items appropriated to be expended by the judicial and legislative branches, the Governor may veto any specific item or items in any bill that appropriates money for specific purposes by striking out or reducing the same; but the Governor shall veto other bills only as a whole.

The Governor has ten days to consider bills presented to the Governor ten or more days before the adjournment of the Legislature sine die, and if any such bill is neither signed nor returned by the Governor within that time, it shall become law in like manner as if the Governor had signed it.

The Governor has forty-five days, after the adjournment of the Legislature sine die, to consider bills presented to the Governor less than ten days before such adjournment, or presented after adjournment, and any such bill shall become law on the forty-fifth day unless the Governor by proclamation shall have given ten days' notice to the Legislature that the Governor plans to return such bill with the Governor's objections on that day. The Legislature may convene on or before the forty-fifth day in special session, without call, for the sole purpose of acting upon any such bill returned by the Governor. In case the Legislature shall fail to so convene, such bill shall not become law. Any such bill may be amended to meet the Governor's objections and, if so amended and passed, only one reading being required in each house for such passage, it shall be presented again to the Governor, but shall become law only if the Governor shall sign it within ten days after presentation.

Emergency and Budget Reserve Fund

Chapter 328L, HRS, relating to the Hawaii Tobacco Settlement Special Fund, which established a special fund for moneys received from the settlement between the State of Hawaii and various tobacco companies, also established the Emergency and Budget Reserve ("EBR") Fund, a special fund for emergency and "rainy day" purposes. The EBR Fund receives 24½% of the moneys from the tobacco settlement. All interest earned from moneys in the EBR Fund is credited to the General Fund. Appropriations from the EBR Fund require a two-thirds majority vote of each house of the Legislature. The EBR Fund balance was $54.0 million as of June 30, 2004, $54.1 million as of June 30, 2005, $53.5 million as of June 30, 2006, and $61.5 million as of June 30, 2007. Projected fund balances, after appropriations, are $49.7 million, $62.0 million, and $74.3 million for fiscal years 2008, 2009 and 2010, respectively.

The annual proceeds from the tobacco settlement were $38.8 million for fiscal year 2004, $38.4 million for fiscal year 2005, $35.2 million for fiscal year 2006, $36.9 million for fiscal year 2007 and $56.1 million for fiscal year 2008. PricewaterhouseCoopers LLP, independent auditor for the Tobacco Master Settlement Agreement, has estimated that the State will receive annual proceeds from the tobacco settlement ranging from $48 to $63 million a year for fiscal years 2009 to 2027. Under the Tobacco Master Settlement Agreement, the State's proceeds are estimated to total $1.4 billion. The amount of future annual proceeds is not guaranteed and is subject to adjustment.

Of the tobacco settlement moneys received by the State each fiscal year, $350,000 is deposited in the Tobacco Enforcement Special Fund to enforce the provisions of the Tobacco Master Settlement Agreement.

In addition to allocating 24½% of the tobacco settlement moneys to the EBR Fund, Chapter 328L allocates 35% of the tobacco settlement funds to the Department of Health for health promotion and disease prevention programs (including up to 10% for the Department of Human Services to provide health insurance for needy children); and allocates 28% to the university revenue-undertakings fund to be applied to finance the University of Hawaii ("UH") Health and Wellness Center and to cover annual operating expenses of the new medical school facility; provided that to the extent such 28% is greater than the amount needed, 80% of the excess will be transferred to the EBR Fund and 20% of the excess will be transferred to the Hawaii Tobacco Prevention and Control Trust Fund. The remaining 12½% is allocated to the Hawaii Tobacco Prevention and Control Trust Fund to reduce cigarette smoking and tobacco use. The allocations contained in Chapter 328L are subject to change by the Legislature at any time.

Expenditure Control

Expenditure Ceiling. The Constitution provides that, notwithstanding any other provision to the contrary, the Legislature shall establish a General Fund expenditure ceiling which shall limit the rate of growth of General Fund appropriations, excluding federal funds received by the General Fund, to the estimated rate of growth of the State's economy as provided by law and that no appropriations in excess of such ceiling shall be authorized during any legislative session unless the Legislature shall, by a two-thirds vote of the members to which each house of the Legislature is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor. Pursuant to such Constitutional provision, Part V of Chapter 37, HRS, provides, in general, that appropriations from the General Fund for each year of the biennium or each supplementary budget fiscal year shall not exceed the expenditure ceiling for that fiscal year. The expenditure ceiling is determined by adjusting the immediate prior fiscal year expenditure ceiling by the applicable "state growth." State growth means the estimated growth of the State's economy and is established by averaging the annual percentage change in total State personal income for the three calendar years immediately preceding the fiscal year for which appropriations from the General Fund are to be made. The Governor is required to submit to the Legislature a plan of proposed aggregate appropriations for the State which includes the executive budget, proposed grants to private entities, any specific appropriation measures to be proposed by the executive branch and estimates of the aggregate proposed appropriations of the judicial and legislative branches of government. In any year in which this plan of proposed General Fund appropriations exceeds the estimated expenditure ceiling, the Governor must declare the dollar amount, the rate by which the expenditure ceiling would be exceeded and the reasons for proposing appropriations in excess of the ceiling amount. Appropriations for recent fiscal years have not exceeded the expenditure ceiling; however, currently approved appropriations for fiscal year 2007 have exceeded the expenditure ceiling. Projected appropriations for fiscal years 2008 and 2009 are not expected to exceed the expenditure ceiling.

The Constitution provides that no public money shall be expended except as appropriated by law. It also requires that provision for the control of the rate of expenditures of appropriated State moneys, and for the reduction of such expenditures under prescribed conditions, shall be made by law and that General Fund expenditures for any fiscal year shall not exceed the State's current General Fund revenues and unencumbered cash balances, except when the Governor publicly declares the public health, safety or welfare is threatened, as provided by law.

Operating Expenditures. Maximum limits for operating expenditures are established for each fiscal year by legislative appropriations. Pursuant to Part II, Chapter 37, HRS, moneys can be withheld by the Governor or the Director of Finance to ensure the solvency of each fund. Expenditure plans consisting of quarterly requirements of all State programs are prepared at the beginning of each fiscal year by the respective departments of State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by Chapter 37, HRS. Allotment transfers between different appropriation items within individual departments can be made after approval is obtained from the Governor, or if delegated, the Director of Finance. Unencumbered allotment balances at the end of each quarter shall revert to the related appropriation account, except for the Department of Education and the UH. Requests to amend allotments must be approved by the Director of Finance. If federal funds allocable to a particular item are greater than had been estimated, the general funds are reduced proportionately as allowable, except for the Department of Education. Although the State has a biennial budget, appropriations are made for individual fiscal years and may not be expended interchangeably, except for five percent of appropriations to the Department of Education, which by statutory authority may be retained up to one year into the next fiscal biennium. The Office of the Governor approves all consultant contracts as to scope, justification, need, and cost. Department heads have been delegated authority to review and approve certain consultant contracts such as medical services. In order to realize savings from bulk acquisition, central purchasing is used for certain office and medical supplies, equipment, and motor vehicles. The Department of Accounting and General Services performs pre-audits on each financial transaction of $10,000 or more before any payment can be made, except for the UH and the Department of Education, which have statutory authority to pre-audit payments made by them. Financial audits of individual programs and organizations are conducted on a periodic basis by the Department of Accounting and General Services. Internal audits are done on a continuous basis by each department. Management audits are accomplished on an as-needed basis by the Department of Budget and Finance. In addition, the State Auditor performs financial and management audits on a selective basis.

Capital Improvement Expenditures. Annual capital improvement implementation plans are also prepared to control and monitor allotments and expenditures. Prior to the initiation of a project, it is reviewed for compliance with legislative intent and other economic considerations, and as to its justification. The Governor must approve the release of funds before any action can be taken. Competitive bidding is enforced to ensure that the lowest possible costs are obtained. Change orders during construction must be substantiated and approved by the expending agency. The need for additional capital improvement funds for each project must be approved by the Governor and must be funded from available balances of other capital improvement project appropriations. An assessment of the quality of construction material being used is performed on a continuous basis. Individual guarantees and warranties are inventoried and monitored as to the adequacy of stipulated performances. Additional reviews and assessments are conducted to identify and resolve any environmental concerns and to preserve historical and archaeological sites, and coastal areas.

State Educational Facilities Improvement Special Fund

The State has established a State Educational Facilities Improvement Special Fund (SEFISF). The amounts in the SEFISF are to be used solely for capital improvements and facilities under the jurisdiction of the State Department of Education, except public libraries. The fund is capitalized by annual appropriations of at least $45 million in general obligation bonds or by annual transfers of at least $45 million from the General Excise Tax if no general obligation bond appropriations are authorized. Act 304, SLH 2006, temporarily increased the amount from $45 million to $90 million for fiscal years 2007 and 2008 to provide additional funds to address a backlog of repair and maintenance projects.

Act 213, SLH 2007, provides for expenditures of $292.2 million for fiscal year 2008 and $43.6 million for fiscal year 2009 from the SEFISF.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

The Constitution grants public employees in the State the right to organize for the purpose of collective bargaining. Chapter 89, HRS, provides for 13 recognized bargaining units for all public employees throughout the State including State and county employees. Each bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. In the case of bargaining units for nonsupervisory blue collar positions, supervisory blue collar positions, nonsupervisory white collar positions, supervisory white collar positions, registered professional nurses, institutional health and correctional workers and professional and scientific employees, the Governor of the State shall have six votes, and the mayors of each of the counties, the Chief Justice of the State Judiciary and the Hawaii Health Systems Corporation Board shall each have one vote. In the case of bargaining units for police officers and fire fighters, the Governor shall have four votes and the mayors shall each have one vote. In the case of bargaining units for teachers and educational officers, the Governor shall have three votes, the State Board of Education shall have two votes and the state superintendent of education shall have one vote. In the case of bargaining units for UH faculty and UH administrative professional and technical staff, the Governor shall have three votes, the UH Board of Regents shall have two votes and the UH president shall have one vote. Decisions by the employer representatives shall be on the basis of simple majority, except when a bargaining unit includes county employees from more than one county. In such case, the simple majority shall include at least one county.

By statute, if an impasse in any negotiation is declared, the parties may attempt to resolve the impasse through mediation, fact finding, and, if mutually agreeable to the parties, final and binding arbitration. Although the statute characterizes arbitration as "final and binding," it also provides that all cost items are subject to appropriations by the appropriate legislative bodies. If final and binding arbitration is not agreed upon, either party may take other lawful action to end the dispute, which, in the case of blue collar workers, public school teachers and university professors, could include an employee strike. In the case of the remaining ten bargaining units, including fire fighters and police officers, a strike is prohibited by law, and negotiation impasses are subject to mandatory final and binding arbitration, subject to appropriation of cost items, as described above. Certain employees are not party to a formal labor contract, including elected and appointed officials and certain contractual hires.

Negotiations for the period from July 1, 2007 to June 30, 2009 have been completed. Negotiated settlements have been reached for the following bargaining units, providing for the following increases over that two-year period:

Unit 1 (blue collar workers): 11.09%
Unit 2 (blue collar supervisors): 10.36%
Unit 3 (white collar workers): 10.64%
Unit 4 (white collar supervisors): 9.68%
Unit 5 (teachers): 11.17%
Unit 6 (educational officers): 12.55%
Unit 8 (University of Hawaii administrative professional technical staff): 12.45%
Unit 10 (institutional health and correctional workers): 10.82%
Unit 13 (professional and scientific employees): 10.82%

Arbitrated decisions (which are not subject to ratification) have been reached for the following bargaining units, providing for the following increases:

Unit 9 (registered professional nurses) from July 1, 2007 to June 30, 2009: 15.84%
Unit 11 (firefighters) from July 1, 2007 to June 30, 2011: 27.20%

A negotiated settlement was reached in 2003 with Unit 7 (UH faculty) for a six-year contract expiring June 30, 2009, providing for a 34.8% increase over six years. (The State has no employees in Unit 12, which is police officers.)

The 2001 Hawaii State Legislature passed Act 90, which authorized privatization of government services and eliminated legal ambiguities regarding the ability to privatize services. The privatization provisions of Act 90 sunset on June 30, 2007.

State Employees' Health Benefits

Act 88, SLH 2001, Relating to Public Employees Health Benefits (partially codified as Chapter 87A, HRS), established the Hawaii Employer-Union Health Benefits Trust Fund ("Trust Fund"). The Trust Fund provides health and other benefit plans for public employees, retirees and their dependents. *The employers participating in the Trust Fund include the State and each of the counties.* Public employer contributions to the Trust Fund for the health and other benefit plans of public employees and their dependents are determined under Chapter 89C, HRS, or by way of applicable public sector collective bargaining agreements. Except for reimbursement of voluntary medical insurance coverage under Medicare, public employer contributions to fund the health and other benefit plans of retirees are not to exceed certain monthly contribution levels specified in Chapter 87A, HRS.

Act 245, SLH 2005 (partially codified as Chapter 87D, HRS), temporarily authorizes employee organizations to establish voluntary employees beneficiary association ("VEBA") trusts to provide health benefits to state and county employees in their bargaining units outside of the Trust Fund. Each VEBA trust is to provide health benefits to State and county employees who retire after establishment of the VEBA trust ("future retirees") and is to give State and county employees who were members of applicable bargaining units and who retired before establishment of the VEBA trust ("existing retirees") a one-time option to transfer from the Trust Fund to the VEBA trust. The State and county employers' monthly contributions to each VEBA trust for active employees and future retirees are to be established by collective bargaining. Monthly contributions to each VEBA trust for existing retirees are to be equal to the contributions paid on behalf of similarly situated retirees under the Trust Fund. The stated purpose of Act 245 is to allow the temporary establishment of a VEBA trust pilot program so as to enable a thorough analysis of the costs and benefits of VEBA trusts against the Trust Fund to determine what actual savings could be realized by the State through the VEBA trust mechanism. The Hawaii State Teachers Association implemented a VEBA trust for its active employees on March 1, 2006 and for retirees on January 1, 2007. Act 245 was amended by Act 294, SLH 2007 to extend the repeal date to July 1, 2009 for any VEBA implemented in March 2006. However, bills are currently pending before the Legislature to make Act 245, SLH 2005, as amended by Act 294, SLH 2007, permanent.

Other Post Employment Benefits

The Government Accounting Standards Board ("GASB") has issued Statements No. 43 ("GASB 43"), Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans ("OPEBs"), and No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB 43 was implemented by the Trust Fund for fiscal year ending June 30, 2007 and GASB 45 must be implemented by the employers (except for the County of Kauai) for fiscal year ending June 30, 2008. The Trust Fund will separately track employer contributions and has prepared Trust Fund financial statements as an Agent Multiple Employer Plan under GASB 43.

The State has received the draft State of Hawaii Employer Union Trust Fund ("Trust Fund") July 1, 2007 Actuarial Valuation Study (the "Trust Fund Report") of the Trust Fund's Other Postemployment Benefits and the draft State of Hawaii Voluntary Employee's Beneficiary Association ("HSTA VEBA") Trust for the Hawaii State Teachers Association July 1, 2007 Actuarial Valuation Study (the "VEBA Report," and, together with the Trust Fund Report, the "Reports") of the HSTA VEBA's OPEBs. The Reports were prepared by the State's professional actuarial advisors, Aon Consulting Inc. The Reports quantify the Actuarial Accrued Liabilities ("AAL") of the respective employers under GASB 45 and develop Annual Required Contributions ("ARC") as the basis for determining the amounts that the respective employers will report under GASB 45, effective for the fiscal year ending June 30, 2008. The Reports' results (based on stated actuarial assumptions) provide costs under two scenarios: (i) no prefunding of the ARC and (ii) full prefunding of the ARC. The draft Trust Fund Report states that the State's AALs for the two scenarios as of July 1, 2007 are $7,192.5 million and $4,716.1 million, respectively. The draft Trust Fund Report estimates that the corresponding ARCs for the fiscal year ending June 30, 2008 would be $517.6 million and $383.4 million, respectively. The estimated Trust Fund pay-as-you-go funding amount for such fiscal year is $200.1 million. The draft VEBA Report states that the HSTA VEBA AALs for the two scenarios as of July 1, 2007 are $1,596.6 million and $928.6 million, respectively. The draft VEBA Report estimates that the corresponding ARCs for the fiscal year ending June 30, 2008 would be $139.0 million and $85.5 million, respectively. The estimated HSTA VEBA pay-as-you-go funding amount for such fiscal year is $14.0 million. The draft Reports will be finalized upon completion of prefunding determinations for the fiscal year ending June 30, 2008 by the respective employers. The State has commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Reports. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis until the completion of the analysis and any necessary determinations and approvals regarding the future funding of OPEB costs by the executive and legislative branches.

State Employees' Retirement System

The Employees' Retirement System of the State of Hawaii (the "System") began operation on January 1, 1926. The System is a cost-sharing, multiple-employer defined benefit pension plan. The System covers all regular employees of the State and each of its counties, including judges and elected officials. On March 31, 2007, the System's membership was comprised of approximately 65,251 active employees, 5,554 inactive vested members and 35,324 pensioners and beneficiaries. The total assets of the System on a market value basis amounted to approximately $9.9 billion as of June 30, 2006, and $11.5 billion as of June 30, 2007. Actuarial certification of assets as of June 30, 2006 was $9.5 billion (See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix B hereto). The June 30, 2007 actuarial certification of assets was $10.6 billion, and its unfunded actuarial accrued liability was $5.1 billion. In 1998, Act 151, SLH 1998, was passed modifying the administration of the System, including its actuarial valuation methods and actuarial assumptions. 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 statutory provisions of Chapter 88, HRS, 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.

The System is funded on an actuarial reserve basis. Actuarial valuations are prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In recent years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate 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. See "PENDING LITIGATION—Employees' Retirement System." For those two valuations, the investment earning in excess of a 10% actuarial return is to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122 of Chapter 88, HRS, as amended by Act 147, SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund is 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 is 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 is 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 2000-2001 fiscal year. The actuarial cost method used to calculate employer contributions was changed 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 are determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the System.

Act 181, SLH 2004, established fixed employer contribution rates as a percentage of compensation effective July 1, 2005. Employers will contribute 15.75% for their police officers and firefighters and 13.75% for other employees. 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 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.

On July 1, 2006, a new defined benefit contributory plan was established pursuant to Act 179, SLH 2004. The new plan provides certain current and new employees with the opportunity to participate in a defined benefit contributory plan. It provides portability for shorter-term employees and is expected to improve recruitment for and retention of public sector employees. The System's actuary has determined that the new plan is cost neutral, an important factor given the escalating costs of the retirement program.

As of March 31, 2007, the Contributory Plan covered 8,010 active employees or 12% of all active members of the System, the Noncontributory Plan covered approximately 26,553 active employees or 41% , and the Hybrid Plan covered 30,688 active members or 47%. The defined benefit plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join the defined benefit plan.

See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix B for summary of the actuarial certification, employer contribution rate and unfunded accrued liabilities information about the System, including employees of the State and each of its counties.

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") First Quarter 2008 Quarterly Statistical and Economic Reports ("QSER") or otherwise prepared by DBEDT some of which may be found at http://www.hawaii.gov/dbedt/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are to calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position. See "APPENDIX B—FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII."

DBEDT's latest forecast for the State's nominal Gross Domestic Product ("GDP") (the value of all goods and services produced within the State, formerly called the Gross State Product or "GSP") growth in 2008 is 5.4%. In real terms (adjusting for inflation), DBEDT predicts the 2008 State's GDP growth to be 2.5% over 2007.

State of the Economy

Indicators for Hawaii's economy were mixed in the fourth quarter of 2007. Total civilian wage and salary jobs, total tax collections distributed to the State general fund revenues, total nominal income, and nominal visitor expenditures showed growth in the fourth quarter of 2007 over that of 2006, albeit at slower rates than in the previous quarters. Total civilian employment and labor force, visitor arrivals, and new private building authorizations decreased for the quarter.

In the third quarter of 2007, Hawaii's total nominal personal income increased $2,858 million or 6.0% from the third quarter of 2006. This was the slowest growth in total personal income since the fourth quarter of 2003. The rate of growth was the highest for Dividends, Interest and Rent (9.6%), followed by Personal Current Transfer Receipts (7.3%), and Wage and Salary Disbursements (5.4%). Contributions to Government Social Insurance, which is subtracted from total personal income, increased 5.2%. For the first three quarters of 2007, total personal income was up 6.4% from the same period of 2006.

In 2007, Honolulu's consumer price index ("CPI") increased 4.8%, which was lower than a 5.9% increase in 2006, but much higher than a 2.8% rise for the U.S. CPI in 2007.

For the fourth quarter of 2007, total tax collections distributed to the State general fund revenues increased 2.6% over the fourth quarter of 2006. This increase was mainly due to General Excise and Use Tax and Transient Accommodations Tax collections, increasing 4.3% and 11.8%, respectively, from the fourth quarter of 2006. For the year, State general fund tax revenues rose 3.6% from last year. This was a much slower growth in State general fund revenues than in the previous three years.

The total number of visitors arriving by air to Hawaii declined 1.9% in the fourth quarter of 2007 from that of 2006. Both domestic and international arrivals were down for the quarter. Total average daily census was also down 0.4%. For the year, total arrivals by air were down 1.2% and average daily census was down 1.6% from 2006. Hotel occupancy rates decreased in each quarter of 2007, averaging 75.3% for the year, down 4.2 percentage points from 2006.

Indicators of Hawaii's construction industry were mixed in the fourth quarter of 2007 and for the year. Construction jobs were up 4.6%, while the total value of new private building authorizations was down 17.0% from the fourth quarter of 2006. For the year, construction jobs grew 5.7%, while total value of new building permits decreased 4.9% from 2006, the first year-over-year decline in the total permit value since 1998.

Outlook for the Economy

In its latest quarterly economic report, DBEDT expects moderate growth in Hawaii's economy in 2008 and 2009. Personal income, total wage and salary jobs, and State GDP are all forecast to grow. Visitor arrivals are expected to decrease slightly in 2008, but will increase again beginning in 2009.

Nominal personal income growth rates for 2008 and 2009 are forecast at 5.7% and 5.4%, respectively. Real personal income growth rates for 2008 and 2009 are expected to be 1.6% and 1.9%, respectively, after deflating the nominal values by the Honolulu's CPI-U. Honolulu's CPI is expected to rise 4.0% in 2008, and 3.4% in 2009.

In 2007, the Hawaii's real GDP is estimated to have increased 5.8% in nominal terms and 2.7% real terms. Real GDP growth is projected to be 2.5% in both 2008 and 2009.

The future outlook for Hawaii's economy is linked to the growth in the U.S. and Japanese economies. According to the February 2008 Blue Chip Economic Consensus Forecasts, the real GDP growth for the U.S. is expected to be 1.7% in 2008 and 2.6% in 2009. For Japan, real GDP growth is projected to be 1.4% in 2008 and 1.9% in 2009. The latest forecast for U.S. consumer price inflation is 3.0% for 2008 and 2.2% for 2009.

Based on latest data and the outlook in coming months, in 2008 total visitor arrivals and visitor days are expected to decline 1.4% and 1.5%, respectively. The 2008 forecast for total nominal (current dollar) visitor expenditures growth is 1.5%. For 2009, both visitor arrivals and visitor days are predicted to grow 1.2%, while the visitor expenditures are forecast to increase 4.2%.

Construction jobs continued to show robust, though slower, growth. Despite decreases in total values of new private building authorizations in recent quarters, permit levels still remain high in terms of dollar values, suggesting solid construction activity in coming months. Government construction has continued to grow, with the value of government contracts awarded increasing 1.8% in 2007 over 2006. The ongoing multi-billion military housing privatization initiative will also contribute to positive growth in Hawaii's construction industry in the coming years.

INFORMATION ON EMPLOYMENT, WAGES AND SALARIES, TAX REVENUES AND TAX BASE

Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

		4th QUARTER 2007		YEAR ENDING DECEMBER 31, 2007	
	UNIT	NUMBER	% CHANGE YEAR AGO	NUMBER	% CHANGE YEAR AGO
Civilian Labor Force	Persons	645,650	-0.3	649,700	1.0
Civilian Employment	Persons	627,850	-1.2	632,950	0.7
Civilian Unemployment	Persons	17,850	46.3	16,750	10.2
Unemployment Rare	%	2.8	0.9	2.6	0.2
Total Wage & Salary Jobs	Jobs	643,200	1.4	635,200	1.9
Total Non-Agriculture Wage & Salary Jobs	Jobs	636,650	1.5	628,700	2.0
Nat. Resources, Mining, Constr.	Jobs	38,650	4.6	37,900	5.7
Manufacturing	Jobs	14,850	-2.3	14,950	-1.3
Wholesale Trade	Jobs	18,300	1.4	18,200	1.7
Retail Trade	Jobs	71,900	0.9	70,000	0.1
Transp., Warehousing, Util.	Jobs	32,400	-4.3	32,750	-0.8
Information	Jobs	11,300	2.3	11,150	3.2
Financial Activities	Jobs	30,350	1.2	30,200	1.0
Professional & Business Services	Jobs	83,900	5.1	82,500	5.4
Educational Services	Jobs	14,100	-0.4	14,100	1.4
Health Care & Social Assistance	Jobs	59,100	2.1	58,600	2.6
Arts, Entertainment & Recreation	Jobs	11,600	1.3	11,550	0.4
Accommodation	Jobs	39,400	0.8	39,350	0.6
Food Services & Drinking Places	Jobs	59,000	3.1	58,650	2.9
Other Services	Jobs	26,850	1.1	26,700	2.1
Government	Jobs	125,300	0.2	122,150	0.9
Federal	Jobs	32,000	0.2	31,850	0.6
State	Jobs	75,350	-0.3	72,400	0.6
Local	Jobs	17,950	2.6	17,900	2.3
Agriculture wage and salary jobs	Jobs	6,550	-6.4	6,500	-6.5
State General Fund Revenues	$1,000	1,124,851	2.5	4,683,086	3.6
General Excise and Use Tax	$1,000	652,765	4.3	2,623,514	6.8
Income-Individual	$1,000	370,408	0.4	1,579,138	0.2
Transient Accommodation Tax	$1,000	53,871	11.8	232,542	5.4

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2005-2010

Economic Indicators	2005	2006	2007	2008	2009	2010
		(Actual)			(Forecast)	
Total population (thousands) 1/	1,268	1,279	1,291	1,304	1,317	1,333
Visitor arrivals (thousands) 2/	7,494	7,561	7,498	7,391	7,479	7,585
Visitor days (thousands) 2/	68,242	69,216	68,146	67,149	67,958	68,929
Visitor expenditures (million dollars) 2/	11,904	12,381	12,488	12,675	13,211	13,795
Honolulu CPI-U (1982-84=100)	197.8	209.4	219.5	228.3	236.0	243.6
Personal income (million dollars)	44,333	47,340	50,293 3/	53,150	56,020	58,933
Real personal income (millions of 2000$) 4/	39,514	39,866	40,395	41,048	41,842	42,652
Total wage & salary jobs (thousands)	608.6	623.5	635.3	644.2	652.5	660.4
Gross domestic product (million dollars)	54,773	58,307 5/	61,689 3/	65,020	68,401	71,821
Real gross domestic product (millions of 2000$)	46,918	48,303 6/	49,616 3/	50,871	52,160	53,432
Gross domestic product deflator (2000=100)	116.7	120.7 3/	124.3 3/	127.8	131.1	134.4
		Annual Percentage Change				
Total population 1/	1.1	0.9	1.0	1.0	1.0	1.1
Visitor arrivals 2/	7.2	0.9	-0.8	-1.4	1.2	1.4
Visitor days 2/	7.7	1.4	-1.5	-1.5	1.2	1.4
Visitor expenditures 2/	9.6	4.0	0.9	1.5	4.2	4.4
Honolulu CPI-U	3.8	5.8	4.8	4.0	3.4	3.2
Personal income	7.9	6.8	6.2 3/	5.7	5.4	5.2
Real personal income 4/	4.0	0.9	1.3	1.6	1.9	1.9
Total wage & salary jobs	3.0	2.4	1.9	1.4	1.3	1.2
Gross domestic product	7.9	6.5 5/	5.8 3/	5.4	5.2	5.0
Real gross domestic product	4.3	3.0 6/	2.7 3/	2.5	2.5	2.4
Gross domestic product deflator	3.4	3.4 3/	3.0 3/	2.8	2.6	2.5

1/ U.S. Census Bureau estimates for 2005-2006, and DBEDT estimate for 2007.
2/ Visitors who came to Hawaii by air or by cruise ship.
3/ DBEDT estimate.
4/ DBEDT calculated using BEA estimate of nominal personal income deflated by Honolulu's CPI-U <http://www.bls.gov/cpi/home.htm>.
5/ U.S. Bureau of Economic Analysis (BEA) <http://www.bea.gov/regional/index.htm> advance estimate.
6/ DBEDT-adjusted BEA advance estimate.
Source: Hawaii State Department of Business, Economic Development & Tourism, February 21, 2008.

Labor Force and Jobs

In the fourth quarter of 2007, Hawaii's civilian labor force totaled 645,650 people, down 0.3% from the same quarter of 2006. This was the first quarter-over-quarter decrease in civilian labor force since the first quarter of 2003. For the year, civilian labor force grew 1.0% from 2006.

Hawaii's total civilian employment averaged 627,850 in the fourth quarter of 2007, a decrease of 1.2% from the same quarter of 2006. This was the first quarterly decrease in civilian employment in Hawaii since the fourth quarter of 2002. For the year, total civilian employment grew 0.7%, the lowest annual increase since 2002.

The number of civilians unemployed averaged 17,850 in the fourth quarter of 2007, up 46.3% from the fourth quarter of 2006. This was the highest rate of increase in the number of unemployed in a quarter since the fourth quarter of 1992. For the year, the number of unemployed people increased 10.2%, the first annual increase since 2001. Hawaii's unemployment rate (not seasonally adjusted) also jumped in the fourth quarter of 2007 to 2.8% from the exceedingly low 1.9% in the fourth quarter of 2006. For the year, unemployment rate averaged 2.6%, up 0.2 of a percentage point from 2006.

Hawaii's civilian wage and salary jobs totaled 643,200 in the fourth quarter of 2007, a 1.4% increase over the same quarter of 2006. This was the slowest growth since the third quarter of 2002. For the year, civilian wage and salary jobs were up 1.9% from 2006.

Professional and Business Services continued to lead the job growth in Hawaii, adding 4,100 or 5.1% more jobs in the fourth quarter of 2007 compared to the same quarter of 2006, followed by Food Services and Drinking Places, adding 1,800 jobs or 3.1%, Natural Resources, Mining and Construction, adding 1,700 jobs or 4.6%, and Health Care and Social Assistance, adding 1,200 jobs or 2.1%. In the fourth quarter of 2007, the Transportation and Utilities sector lost 1,450 jobs or 4.3% from the same quarter of 2006, while Agriculture lost 450 jobs or 6.4% and Manufacturing was down 350 jobs or 2.3%.

In the fourth quarter of 2007, government added 300 jobs, up 0.2% from that in 2006. Federal government was up 50 jobs or 0.2%. Local government gained 450 jobs or 2.6%, while State government lost 200 jobs or 0.3%.

Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(Number of persons)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate (%)
1996	596,750	1.2	561,700	0.8	5.9
1997	601,650	0.8	566,750	0.9	5.8
1998	604,300	0.4	570,150	0.6	5.7
1999	606,650	0.4	576,300	1.1	5.0
2000	609,000	0.4	584,850	1.5	4.0
2001	615,250	1.0	589,200	0.7	4.2
2002	608,950	-1.0	584,350	-0.8	4.0
2003	612,550	0.6	588,900	0.8	3.9
2004	616,950	0.7	597,150	1.4	3.2
2005	631,300	2.3	614,300	2.9	2.7
2006	643,500	1.9	628,300	2.3	2.4
2007	649,700	1.0	632,950	0.7	2.6

Income and Prices

Hawaii's total nominal personal income continued to grow at a solid pace in the third quarter of 2007 (the latest period income data are available from the Bureau of Economic Analysis) over the same quarter of 2006. The rate of growth was the highest for Dividends, Interest and Rent, followed by Personal Current Transfer Receipts and Wage and Salary Disbursements. Most major private sectors experienced positive earnings growth, with Construction, Accommodations and Food Services, Professional and Technical Services, Transportation and Warehousing, and Health Care and Social Assistance leading the growth in dollar terms.

During the third quarter of 2007, Wage and Salary Disbursements increased $1,477 million or 5.4% from the same quarter of 2006. Through the third quarter, Wage and Salary Disbursements were up 6.0% from the same period last year. Wage and Salary Disbursements comprised about 57% of total personal income.

Supplements to Wages and Salaries (consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits) increased $359 million or 4.6% in the third quarter of 2007 from that of 2006. This marked the slowest growth in Supplements to Wages and Salaries since the second quarter of 2000. For the first three quarters of 2007, Supplements to Wages and Salaries increased 5.5% from the same period last year.

Proprietors' Income (the income most closely related to entrepreneurial activity) increased $50 million or 1.6% in the third quarter of 2007 over that of 2006. Year-to-date, Proprietors' Income was up 1.8% from the same period of 2006.

Dividends, Interest, and Rent increased $735 million or 9.6% in the third quarter of 2007 from the same quarter of 2006. For the first three quarters of 2007, Dividends, Interest, and Rent were up 9.2% from the comparable period last year.

Personal Current Transfer Receipts (consisting largely of retirement and medical payments) rose $441 million or 7.3% in the third quarter of 2007 from the same quarter of 2006. In the first three quarters of 2007, Personal Current Transfer Receipts increased 8.1% from the same period last year.

Contributions to Government Social Insurance, which is subtracted from total personal income, increased $204 million or 5.2% in the third quarter of 2007 compared to the same quarter of 2006. Year-to-date, Contributions to Government Social Insurance were up 5.9% from the same period of 2006.

Earnings increased across most private sectors in the third quarter of 2007. In dollar terms, the largest increase occurred in Construction ($289 million or 9.9%), followed by Accommodations and Food Service ($184 million or 5.8%), Professional and Technical Services ($165 million or 7.3%), Transportation and Warehousing ($160 million or 10.3%), and Health Care and Social Assistance ($159 million or 4.9%). Total government earnings increased $527 million or 4.3%, including a $324 million or 4.3% increase in Federal government earnings, and a $202 million or 4.2% increase in State and Local government earnings.

In the second half of 2007, Honolulu's CPI increased 4.8% from the second half of 2006, compared to a 3.1% increase for the U.S. during the same period. For the year, Honolulu's CPI increased 4.8% from 2006, 2.0 percentage points higher than that for the nation. The Honolulu's increase was largely due to housing and food and beverage components, increasing 6.7% and 5.1%, respectively.

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Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES
(In millions of dollars at seasonally adjusted annual rates)

Series	Third Quarter 2006	Third Quarter 2007	YTD 2006	YTD 2007	Percentage change from: To Third Quarter 2007 from Third Quarter 2006	Percentage change from: YTD 2007 from 2006
PERSONAL INCOME	47,819	50,677	46,996	50,009	6.0	6.4
Earnings By Place of Work	38,057	39,943	37,483	39,562	5.0	5.5
Wage and salary disbursements	27,234	28,711	26,823	28,427	5.4	6.0
Supplements to wages and salaries	7,729	8,088	7,565	7,983	4.6	5.5
Emp'er contrib. for emp'ee pension & ins. funds	5,798	6,060	5,664	5,968	4.5	5.4
Employer contributions for gov't social ins.	1,931	2,028	1,901	2,015	5.0	6.0
Proprietors' income	3,094	3,144	3,095	3,151	1.6	1.8
Farm proprietors' income	3	-8	-1	-2	(1/)	(1/)
Nonfarm proprietors' income	3,091	3,152	3,095	3,153	2.0	1.9
Dividends, interest, and rent	7,688	8,423	7,501	8,190	9.6	9.2
Personal current transfer receipts	6,021	6,462	5,902	6,378	7.3	8.1
State unemployment insurance benefits	94	115	90	103	22.3	14.0
Personal current transfer receipts exc State U.I.	5,927	6,347	5,811	6,275	7.1	8.0
Less: Contributions for gov't social insurance	3,947	4,151	3,890	4,120	5.2	5.9
Personal contributions for gov't social insurance	2,016	2,123	1,989	2,106	5.3	5.9
Employer contributions for gov't social insurance	1,931	2,028	1,901	2,015	5.0	6.0
Earnings By Industry	38,057	39,943	37,483	39,562	5.0	5.5
Farm Earnings	221	216	216	220	-2.3	1.7
Nonfarm Earnings	37,836	39,727	37,268	39,342	5.0	5.6
Private earnings	25,566	26,930	25,317	26,748	5.3	5.7
Forestry, fishing, related activities, and other 6/	48	45	52	46	-6.3	-11.5
Mining	54	59	53	58	9.3	9.5
Utilities	320	325	315	318	1.6	1.0
Construction	2,912	3,201	2,860	3,228	9.9	12.9
Manufacturing	987	1,055	971	1,048	6.9	7.9
Durable goods	369	402	359	397	8.9	10.6
Nondurable goods	618	652	612	650	5.5	6.2
Wholesale trade	1,087	1,165	1,060	1,142	7.2	7.7
Retail trade	2,446	2,519	2,426	2,515	3.0	3.6
Transportation and warehousing	1,551	1,711	1,533	1,662	10.3	8.4
Information	722	774	746	750	7.2	0.5
Finance and insurance	1,282	1,313	1,309	1,306	2.4	-0.2
Real estate and rental and leasing	1,056	1,047	1,083	1,077	-0.9	-0.6
Professional and technical services	2,258	2,423	2,247	2,385	7.3	6.1
Management of companies and enterprises	662	683	636	664	3.2	4.5
Administrative and waste services	1,628	1,588	1,599	1,588	-2.5	-0.7
Educational services	520	553	515	546	6.3	6.2
Health care and social assistance	3,239	3,398	3,165	3,390	4.9	7.1
Arts, entertainment, and recreation	428	455	421	452	6.3	7.4
Accommodation and food services	3,200	3,384	3,174	3,353	5.8	5.7
Other services, except public administration	1,164	1,233	1,151	1,222	5.9	6.2
Government and government enterprises	12,270	12,797	11,951	12,594	4.3	5.4
Federal	7,459	7,783	7,280	7,691	4.3	5.6
Federal, civilian	2,833	2,934	2,814	2,925	3.6	3.9
Military	4,626	4,849	4,466	4,766	4.8	6.7
State and local	4,811	5,013	4,671	4,903	4.2	5.0

1/ Percentage changes involving negative numbers are not meaningful.

Table 5

PERSONAL INCOME
(In millions of dollars at seasonally adjusted annual rates)

YEAR	ANNUAL AVERAGE	% CHANGE
1996	30,122	0.7
1997	31,002	2.9
1998	31,757	2.4
1999	32,646	2.8
2000	34,451	5.5
2001	35,126	2.0
2002	36,370	3.5
2003	37,837	4.0
2004	41,075	8.6
2005	44,333	7.9
2006	47,340	6.8
2007*	50,293	6.2

* DBEDT forecast based on the data for the first three quarters.

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Table 6.

HONOLULU and U.S. CONSUMER PRICE INDEX,
ALL URBAN CONSUMERS (CPI-U)
[1982-84=100. Data are not seasonally adjusted]

Period	U.S.	Honolulu All Items	Food & Beverages	Housing	Apparel	Transpor-tation	Medical Care	Recre-ation 1/	Educ. & Comm. 1/	Other Goods & Services
1990	130.7	138.1	137.8	141.5	107.0	131.1	154.2	(NA)	(NA)	160.4
1991	136.2	148.0	145.9	152.8	110.5	139.3	171.3	(NA)	(NA)	175.7
1992	140.3	155.1	148.5	161.7	114.2	147.4	182.6	(NA)	(NA)	189.0
1993	144.5	160.1	152.9	166.5	116.5	150.5	197.4	(NA)	(NA)	200.1
1994	148.2	164.5	153.4	171.6	118.7	156.4	206.0	(NA)	(NA)	209.6
1995	152.4	168.1	156.8	174.7	117.5	162.4	209.8	(NA)	(NA)	216.8
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	(NA)	(NA)	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	(NA)	(NA)	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2001	177.1	178.4	169.5	179.1	101.0	174.5	2/	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	2/	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	2/	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005	195.3	197.8	185.9	205.2	102.5	191.6	2/	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	2/	101.1	114.0	332.1
2007	207.3	219.5	204.9	238.4	104.1	205.0	2/	102.6	114.0	347.5
1995H1	151.5	166.9	156.5	173.4	118.1	160.0	207.8	(NA)	(NA)	214.4
H2	153.2	169.4	157.1	176.0	116.9	164.9	211.8	(NA)	(NA)	219.2
1996H1	155.8	170.5	156.9	176.8	120.0	166.3	214.9	(NA)	(NA)	220.6
H2	157.9	171.0	156.3	176.8	116.9	167.7	215.0	(NA)	(NA)	232.4
1997H1	159.9	172.1	159.4	177.3	119.8	167.8	215.6	(NA)	(NA)	232.5
H2	161.2	171.8	159.0	177.0	114.8	164.6	219.1	(NA)	(NA)	245.5
1998H1	162.3	172.0	160.0	176.3	116.4	163.2	222.5	101.4	98.9	254.3
H2	163.7	171.0	158.2	175.7	108.0	161.8	229.8	100.3	99.3	258.0
1999H1	165.4	172.7	162.4	175.5	106.0	162.3	231.0	101.3	102.6	273.9
H2	167.8	173.8	163.5	176.0	104.9	162.0	231.5	102.5	106.4	277.3
2000H1	170.8	175.9	165.5	177.3	104.5	167.7	235.9	103.1	107.3	277.5
H2	173.6	176.7	164.1	178.5	102.6	171.5	243.8	102.6	105.6	281.9
2001H1	176.6	178.1	168.3	178.8	99.7	176.0	246.1	102.1	103.5	287.5
H2	177.5	178.7	170.7	179.3	102.3	173.0	2/	101.1	105.8	291.1
2002H1	178.9	180.1	172.3	180.5	106.2	171.7	2/	99.9	106.9	299.1
H2	180.9	180.4	171.6	181.9	99.1	170.1	266.5	99.2	108.7	305.3
2003H1	183.3	183.2	173.7	184.7	99.2	175.2	2/	99.3	111.1	307.0
H2	184.6	185.7	176.0	187.7	97.8	177.7	2/	101.5	113.8	308.2
2004H1	187.6	189.2	179.5	192.2	102.6	180.2	274.8	102.6	113.5	309.6
H2	190.2	191.9	180.9	196.3	99.9	184.6	277.0	102.0	113.6	315.2
2005H1	193.2	195.0	184.7	199.9	104.9	188.2	2/	98.5	115.8	318.6
H2	197.4	200.6	187.1	210.5	100.0	195.1	2/	97.0	112.8	323.3
2006H1	200.6	206.4	191.6	216.9	104.1	201.6	2/	100.9	114.3	329.5
H2	202.6	212.3	196.8	228.0	104.7	202.6	2/	101.3	113.7	334.7
2007H1	205.709	216.620	202.952	233.606	102.648	204.402	2/	102.058	112.887	343.703
H2	208.976	222.388	206.932	243.250	105.642	205.652	309.195	103.087	115.047	351.295

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed February 20, 2008.

Table 6

HONOLULU and U.S. CONSUMER PRICE INDEX,
ALL URBAN CONSUMERS (CPI-U) - Continued
(Percentage change from the same period last year)

		Honolulu								
Period	U.S.	All Items	Food & Beverages	Housing	Apparel	Transpor-tation	Medical Care	Recre-ation 1/	Educ. & Comm. 1/	Other Goods & Services
1991	4.2	7.2	5.9	8.0	3.3	6.3	11.1	(NA)	(NA)	9.5
1992	3.0	4.8	1.8	5.8	3.3	5.8	6.6	(NA)	(NA)	7.6
1993	3.0	3.2	3.0	3.0	2.0	2.1	8.1	(NA)	(NA)	5.9
1994	2.6	2.7	0.3	3.1	1.9	3.9	4.4	(NA)	(NA)	4.7
1995	2.8	2.2	2.2	1.8	-1.0	3.8	1.8	(NA)	(NA)	3.4
1996	3.0	1.5	-0.1	1.2	0.9	2.8	2.5	(NA)	(NA)	4.5
1997	2.3	0.7	1.7	0.2	-1.0	-0.5	1.1	(NA)	(NA)	5.5
1998	1.6	-0.2	-0.1	-0.6	-4.3	-2.2	4.0	(NA)	(NA)	7.2
1999	2.2	1.0	2.4	-0.1	-6.1	-0.2	2.3	1.1	5.4	7.6
2000	3.4	1.7	1.2	1.2	-1.8	4.6	3.7	0.9	1.9	1.5
2001	2.8	1.2	2.9	0.7	-2.4	2.9	2/	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	2/	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	2/	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	2/	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	2/	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	2/	3.4	-0.3	3.5
2007	2.8	4.8	5.5	7.2	-0.2	1.4	2/	1.5	0.0	4.6
1996H1	2.8	2.2	0.3	2.0	1.6	3.9	3.4	(NA)	(NA)	2.9
H2	3.1	0.9	-0.5	0.5	0.0	1.7	1.5	(NA)	(NA)	6.0
1997H1	2.6	0.9	1.6	0.3	-0.2	0.9	0.3	(NA)	(NA)	5.4
H2	2.1	0.5	1.7	0.1	-1.8	-1.8	1.9	(NA)	(NA)	5.6
1998H1	1.5	-0.1	0.4	-0.6	-2.8	-2.7	3.2	(NA)	(NA)	9.4
H2	1.6	-0.5	-0.5	-0.7	-5.9	-1.7	4.9	(NA)	(NA)	5.1
1999H1	1.9	0.4	1.5	-0.5	-8.9	-0.6	3.8	-0.1	3.7	7.7
H2	2.5	1.6	3.4	0.2	-2.9	0.1	0.7	2.2	7.2	7.5
2000H1	3.3	1.9	1.9	1.0	-1.4	3.3	2.1	1.8	4.6	1.3
H2	3.5	1.7	0.4	1.4	-2.2	5.9	5.3	0.1	-0.8	1.7
2001H1	3.4	1.3	1.7	0.8	-4.6	4.9	4.3	-1.0	-3.5	3.6
H2	2.2	1.1	4.0	0.4	-0.3	0.9	2/	-1.5	0.2	3.3
2002H1	1.3	1.1	2.4	1.0	6.5	-2.4	2/	-2.2	3.3	4.0
H2	1.9	1.0	0.5	1.5	-3.1	-1.7	2/	-1.9	2.7	4.9
2003H1	2.5	1.7	0.8	2.3	-6.6	2.0	2/	-0.6	3.9	2.6
H2	2.0	2.9	2.6	3.2	-1.3	4.5	2/	2.3	4.7	0.9
2004H1	2.3	3.3	3.3	4.1	3.4	2.9	2/	3.3	2.2	0.8
H2	3.0	3.3	2.8	4.6	2.1	3.9	2/	0.5	-0.2	2.3
2005H1	3.0	3.1	2.9	4.0	2.2	4.4	2/	-4.0	2.0	2.9
H2	3.8	4.5	3.4	7.2	0.1	5.7	2/	-4.9	-0.7	2.6
2006H1	3.8	5.8	3.7	8.5	-0.8	7.1	2/	2.4	-1.3	3.4
H2	2.6	5.8	5.2	8.3	4.7	3.8	2/	4.4	0.8	3.5
2007H1	2.5	5.0	5.9	7.7	-1.4	1.4	2/	1.1	-1.2	4.3
H2	3.1	4.8	5.1	6.7	0.9	1.5	2/	1.8	1.2	5.0

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed February 20, 2008.

Tourism

Hawaii's tourism sector continued to weaken in the fourth quarter of 2007 as compared to same quarter of 2006. Total arrivals were down from last year. Both hotel occupancy rate and total air capacity were also down in the fourth quarter. Visitor expenditures increased in nominal terms but were down in real terms.

In the fourth quarter of 2007, total arrivals by air decreased 1.9%, as compared to the same quarter of 2006. For the year, total arrivals were down 1.2% from 2006.

During the fourth quarter of 2007, the total average daily visitor census was down 0.4% from the fourth quarter of 2006. For the year, average daily census was down 1.6% from 2006.

Total visitor arrivals on domestic flights decreased 0.8% in the fourth quarter of 2007 from that of 2006. For the year, domestic arrivals were almost flat. International arrivals were down 5.0% in the fourth quarter of 2007 compared to that of 2006. For all of 2007, international arrivals were down 4.7% from 2006.

Considering major market areas, in the fourth quarter of 2007, arrivals from the U.S. West were down 1.6% compared to that of 2006. For the year, U.S. West arrivals were up 0.1% from 2006, the weakest annual performance in that market since 2001. Arrivals from the U.S. East were down 5.3% for the quarter and down 3.3% for the year. Similarly, arrivals from Japan declined 6.2% in the quarter and declined 3.5% for the year.

For the fourth quarter of 2007, domestic average daily visitor census was up 1.5%, while international average daily census was down 0.3% compared to the same quarter last year. For the year, domestic daily census was up 1.1%, while international daily census was down 4.8% from last year.

Nominal visitor expenditures by air increased just 1.5% in the fourth quarter of 2007 from the same quarter of 2006. For the year, visitor expenditures were up just 0.9% from 2006, as compared to 4.8% increase in Honolulu's Consumer Price Index.

Total airline capacity, as measured in terms of the number of available seats flown to Hawaii, decreased 4.0% in the fourth quarter of 2007 from the same quarter of 2006. This marked the third consecutive quarterly decline in total seats. Domestic seats for the quarter were down 2.2%, while international seats were down 8.6%. For the year, both domestic and international seats were down.

In the fourth quarter of 2007, statewide hotel occupancy rate averaged 72.5%, down 1.6% from the same quarter of 2006. This was the eighth straight quarter-over-quarter decline in the occupancy rates. For all of 2007, occupancy rate averaged 75.3%, down 4.2 percentage points from 2006.

Table 7

VISITOR ARRIVALS BY AIR
Average Length of Stay, Visitor Days, Average Daily Census

	2005	2006	2007	% Change 2005-2006	% Change 2006-2007
Total Arrivals					
Total	7,416,574	7,461,299	7,368,048	0.6	-1.2
Domestic	5,313,281	5,495,813	5,494,370	3.4	0.0
International	2,103,293	1,965,486	1,873,678	-6.6	-4.7
Average Length of Stay					
Total	9.1	9.2	9.1	0.5	-0.3
Domestic	9.9	9.8	9.9	-0.9	0.4
International	7.1	7.4	7.0	3.2	-4.1
Visitor Days					
Total	67,687,479	68,477,196	67,407,029	1.2	-1.6
Domestic	52,704,668	54,039,432	54,201,021	2.5	0.3
International	14,982,811	14,437,764	13,206,008	-3.6	-8.5
Average Daily Census					
Total	185,445	187,609	184,677	1.2	-1.6
Domestic	144,396	148,053	148,496	2.5	0.3
International	41,049	39,556	36,181	-3.6	-8.5

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Table 8

HOTEL OCCUPANCY RATE (%)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
1982	79.0	65.9	70.9	66.7	70.4
1983	75.2	68.1	71.7	66.5	69.7
1984	84.0	75.6	74.6	75.1	76.0
1985	88.1	69.1	75.0	72.5	76.1
1986	87.0	78.8	79.9	76.8	81.7
1987	88.0	77.1	82.1	77.8	81.1
1988	81.7	75.1	81.3	75.1	78.5
1989	85.9	73.9	81.0	75.7	79.0
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006 1/	83.6	78.2	82.5	74.1	79.5
2007	77.3	71.9	79.0	72.5	75.3

Quarterly averages are computed by Hawaii State Department of Business, Economic Development & Tourism from PKF-Hawaii monthly averages through January 1995 and Hospitality Advisors LLC monthly averages from February 1995.

1/ Source revised months of 1st and 4th Quarters and Annual Average.

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

Construction

In the fourth quarter of 2007, the Natural Resources, Mining and Construction sector added 4.6% more jobs over the same quarter of 2006, reaching a new all-time high of 38,650 jobs. Although the rate of growth was lower than in the previous quarters, for the year construction jobs showed stronger growth of 5.7% from 2006.

The total value of new private building authorizations decreased $177.9 million or 17.0% in the fourth quarter of 2007 from that of 2006. Total residential permit value was down $56.3 million or 13.4% from the fourth quarter of 2006. Similarly, the fourth quarter value of new commercial and industrial permits decreased $26.6 million or 8.7% from that in 2006 and the value of additions and alterations was down $95.0 million or 29.5% for the same time period. For the year, total value of new private building authorizations was down $184.6 million or 4.9% from 2006, the first year-over-year decline in the total value of new private building authorizations since 1998.

Among the counties, in the fourth quarter of 2007, the total values of new private building permits in Honolulu and Maui Counties were down 29.9% and 20.7%, respectively, compared to the same quarter 2006, while they were up 5.1% in Hawaii County and 38.1% in Kauai County (only residential). For the year, permit values for Honolulu and Kauai Counties were up 3.1% and 12.4%, respectively, while they were down 25.7% and 1.5% in Maui and Hawaii's Counties, respectively.

The value of government construction contracts awarded declined 27.9% in the fourth quarter of 2007 as compared to the same quarter last year. For the year, the value of government contracts awarded increased 1.8% over 2006.

The number of total private residential building authorizations declined 24.3% in the fourth quarter of 2007 from the same quarter of 2006. A 6.0% decline in the number of single-family unit authorizations combined with a 78.6% decrease in the multi-family unit authorizations contributed to this decline in total residential permits. For the year, single-family unit authorizations were down 16.7% from 2006, while multi-family unit authorizations were up 66.9%, resulting in a 1.6% decrease in the total residential unit authorizations.

During the fourth quarter of 2007, Honolulu's construction cost indices for single-family residences and high rise buildings rose 6.6% and 7.1%, respectively, from the same quarter of 2006. For the year, both indices increased 7.9% from 2006.

In the fourth quarter of 2007, Honolulu's median prices for single family and condominium resales were up a 0.9% and 1.6%, respectively, from the same quarter of 2006. The number of single-family resales in Honolulu was down 19.8%, while the number of condominium resales was up 11.7%. For all of 2007, Honolulu's median resale price for single family units was up 2.1% and that for condominium units was up 4.8%. Total units sold for the year were down 10.2% and 13.8% for single-family and condominium units, respectively.

In 2007, Maui's median price for single-family resales was down 8.7% from 2006, the first such decline since 1999, while the condominium's median price was up 6.2% up from last year. In 2007, number of resales in Maui was up 5.2% for single family units, while it was down 5.5% for condominium units.

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED
(In millions of dollars)

Year	Contracting tax base 1/	Private Building Authorization 4/ Total Private Authorizations	Residential 4/	Commercial & Industrial 2/	Additions & Alterations	Government Contracts Awarded
1996	3,285.1	1,117.8	487.0	252.8	378.0	885.5
1997	2,944.4	1,179.2	542.5	264.5	372.2	615.6
1998	3,016.0	1,054.4	485.6	205.6	363.1	685.1
1999	2,991.2	1,320.2	628.7	306.3	385.2	584.8
2000 3/	3,613.4	1,513.0	800.2	246.3	466.7	810.9
2001	3,766.4	1,585.7	882.4	329.1	374.2	715.7
2002 4/	4,274.9	1,772.1	1,112.9	254.2	404.9	768.3
2003 4/	4,536.3	2,352.7	1,336.1	507.9	508.7	633.4
2004 4/	4,921.5	2,726.5	1,767.7	303.3	655.6	1,384.6
2005 4/	5,851.0	3,492.0	2,259.3	433.5	799.1	725.1
2006 4/	7,018.2	3,770.1	1,811.8	732.0	1,226.2	853.8
2007 4/	(NA)	3,585.4	1,855.4	703.9	1,026.2	869.5
2006 4/ 1 Qtr.	1,652.3	766.2	481.1	61.1	224.0	297.2
4/ 2 Qtr.	1,627.9	908.1	451.6	160.7	295.9	174.4
4/ 3 Qtr.	1,879.1	1,051.5	460.5	206.5	384.5	220.6
4/ 4 Qtr.	1,859.0	1,044.2	418.6	303.8	321.8	161.6
2007 4/ 1 Qtr.	1,907.7	737.1	412.1	59.7	265.3	180.1
4/ 2 Qtr.	1,949.5	1,085.7	668.8	222.6	194.2	317.7
4/ 3 Qtr.	1,924.1	896.3	412.1	144.3	339.9	255.1
4/ 4 Qtr.	(NA)	866.3	362.3	277.2	226.8	116.5

NA Not available.

First Hawaiian Bank has discontinued compiling Government Contracts Awarded. Hawaii State Department of Business, Economic Development & Tourism has compiled preliminary estimates beginning with the fourth quarter 1997 based on data in Building Industry.

1/ Formerly, this category was "Value of Construction Completed", subject to revision by Hawaii State Department of Taxation.

2/ Includes hotels.

3/ Kauai County data for November consist of residential data only.

4/ Beginning with 2002 Kauai data available for residential only.

Source: Hawaii State Department of Taxation; county building departments; U.S. Census Bureau; First Hawaiian Bank; Building Industry.

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED - Continued
(Percentage change from the same period in previous year)

Year	Contracting tax base 1/	Private Building Authorization 4/: Total Private Authorizations	Residential 4/	Commercial & Industrial 2/	Additions & Alterations	Government Contracts Awarded
1996	4.8	-27.0	-34.7	-31.4	-9.5	80.6
1997	-10.4	5.5	11.4	4.6	-1.5	-30.5
1998	2.4	-10.6	-10.5	-22.3	-2.4	11.3
1999	-0.8	25.2	29.5	49.0	6.1	-14.6
2000 3/	20.8	14.6	27.3	-19.6	21.1	38.7
2001	4.2	4.8	10.3	33.6	-19.8	-11.7
2002 4/	13.5	11.8	26.1	-22.8	8.2	7.3
2003 4/	6.1	32.8	20.1	99.8	25.6	-17.6
2004 4/	8.5	15.9	32.3	-40.3	28.9	118.6
2005 4/	18.9	28.1	27.8	43.0	21.9	-47.6
2006 4/	19.9	8.0	-19.8	68.8	53.4	17.8
2007 4/	(NA)	-4.9	2.4	-3.8	-16.3	1.8
2006 4/ 1 Qtr.	23.9	8.4	14.5	25.6	-5.7	39.1
4/ 2 Qtr.	14.0	24.7	0.2	55.4	69.6	65.3
4/ 3 Qtr.	19.0	0.1	-30.5	-6.2	128.4	-29.8
4/ 4 Qtr.	23.1	3.8	-42.3	394.5	47.1	76.6
2007 4/ 1 Qtr.	15.5	-3.8	-14.3	-2.3	18.4	-39.4
4/ 2 Qtr.	19.8	19.6	48.1	38.6	-34.4	82.1
4/ 3 Qtr.	2.4	-14.8	-10.5	-30.1	-11.6	15.7
4/ 4 Qtr.	(NA)	-17.0	-13.4	-8.7	-29.5	-27.9

NA Not available.

First Hawaiian Bank has discontinued compiling Government Contracts Awarded. Hawaii State Department of Business, Economic Development & Tourism has compiled preliminary estimates beginning with the fourth quarter 1997 based on data in Building Industry.

1/ Formerly, this category was "Value of Construction Completed", subject to revision by Hawaii State Department of Taxation.

2/ Includes hotels.

3/ Kauai data for November consist of residential data only.

4/ Beginning in 2002 Kauai data available for residential only.

Source: Hawaii State Department of Taxation; county building departments; U.S. Census Bureau; First Hawaiian Bank; Building Industry.

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING
CONSTRUCTION AUTHORIZATIONS, BY COUNTY
(In thousands of dollars)

Year	State	% Change	City & County of Honolulu	% Change	Hawaii County	% Change	Kauai County	% Change	Maui County	% Change
1996	1,117,760	-27.0	698,697	-28.8	171,017	-36.0	101,981	29.2	146,065	-28.6
1997	1,179,182	5.5	772,825	10.6	155,776	-8.9	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.6	624,226	-19.2	178,220	14.4	88,196	-9.8	163,638	7.1
1999	1,320,218	25.2	706,358	13.2	243,852	36.8	140,846	59.7	229,162	40.0
1/ 2000	1,512,601	14.6	694,224	-1.7	321,705	31.9	141,313	0.3	355,361	55.1
2001	1,585,739	4.8	682,660	-1.7	380,248	18.2	210,094	48.7	312,738	-12.0
2/ 2002	1,772,027	11.7	876,051	28.3	449,600	18.2	172,662	-17.8	273,717	-12.5
2/ 2003	2,351,762	32.7	1,109,568	26.7	619,675	37.8	153,242	-11.2	469,277	71.4
2/ 2004	2,726,537	15.9	1,320,552	19.0	826,494	33.4	130,660	-14.7	448,830	-4.4
2/ 2005	3,491,965	28.1	1,364,029	3.3	1,008,388	22.0	288,132	120.5	831,416	85.2
2/ 2006	3,770,051	8.0	1,625,328	19.2	926,019	-8.2	239,294	-17.0	979,412	17.8
2/ 2007	3,585,447	-4.9	1,676,232	3.1	912,529	-1.5	268,915	12.4	727,772	-25.7

1/ Kauai County data for November consist of residential data only.
2/ Beginning with 2002, Kauai data available for residential only.
3/ State, Honolulu, Hawaii and Kauai were revised in 1993 and 1994 and the State and Hawaii in 2003.
Source: County building departments.

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Federal Government Expenditures in Hawaii

According to the most recent data available, total federal expenditures in Hawaii reached $12.7 billion in the federal fiscal year ending September 30, 2005, an increase of 4.2% over the previous year. Between federal fiscal years 1997 and 2005, the annual average growth rate for federal expenditures was 5.7%. Overall, federal activity in Hawaii produces about 13.4% of State GDP, much of which is defense-related.

According to the U.S. Department of Defense, expenditures on payroll and procurement contracts in Hawaii increased from $3.2 billion in the federal fiscal year 1994 to $6.1 billion in federal fiscal year 2006. Military spending in Hawaii remains a relatively stable and important source of outside income. Over that period, payroll outlays grew from $2.4 billion in federal fiscal year 1994 to $4.1 billion in federal fiscal year 2006. Payroll, however, slipped from 75% of total Hawaii federal defense spending in federal fiscal year 1994 to 67% in federal fiscal year 2006. Procurement contracts accounted for $0.8 billion or 25% of total defense spending in federal fiscal year 1994, rising to $2.0 billion, or 32% of the total defense spending in federal fiscal year 2006. Between the federal fiscal years 2005 and 2006, the total military spending rose 9.3% while payroll alone rose 14.4%, largely due to the 20.5% and 23.4% increases in the payroll of active-duty military and the National Guard and Reserve respectively. Total Department of Defense personnel increased 5.1% from 70,208 in federal fiscal year 2005 to 73,782 in federal fiscal year 2006, mainly due to increases in active duty military personnel.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in 2007 as of the third quarter were 5.6% higher than a year earlier. Total military earnings in 2007 as of the third quarter increased 6.7% and total federal civilian earnings increased 3.9%.

Military spending for construction in Hawaii for the federal fiscal year 2009 which begins on October 1, 2008 would total $544 million under the $3.1 trillion budget request President Bush unveiled on February 4, 2008 and is about the same as the federal fiscal year 2008 allotment. Appropriations for federal fiscal year 2008 defense projects in Hawaii total nearly $742 million. This includes a military construction program of $533.6 million, and $208 million for defense-related projects. In addition, $5.5 million is to be provided to improve infrastructure and educational programs for Hawaii's public schools with high enrollments of military children. Further, the federal education budget includes $48.2 million in impact aid funding for Hawaii's public schools. Ongoing programs to privatize construction, renovation and operation of military housing will contribute an estimated $3 billion over the next decade.

Banks and Other Financial Institutions

As of June 30, 2007, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at $29.64 billion, a 4.89% increase from June 30, 2006. The five State-chartered banks accounted for $28.98 billion of such assets.

Transportation

Because the State's population resides on seven islands, the State is dependent on fast, efficient, low-cost transportation, both interstate and intrastate.

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 2005, 2006 and 2007 amounted to 20.2 million short tons, 20.7 million short tons and 21.5 million short tons, respectively.

The Harbor System is comprised of 10 harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, Kalaeloa Barbers Point Harbor and Kewalo Basin on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaumalapau Harbor on the island of Lanai, comprising the Maui District. The Harbors System currently manages Kewalo Basin for its landowner, the Hawaii Community Development Authority.

The State uses nine harbors, with the except of Kewalo Basin, to facilitate the movement of goods from the mainland, foreign and inter-island ports. The number of commercial vessels entering all ports was 9,714 in fiscal year 2005, 10,465 in fiscal year 2006, and 10,541 in fiscal year 2007.

Honolulu Harbor is the hub of the State's Statewide System of Harbors, where it serves as a major distribution point of overseas cargo to the neighbor islands and a primary consolidation center for export of overseas cargo. Overseas and inter-island cargo tonnage handled through the Honolulu Harbor was 9.8 million short tons in fiscal year 2005, 9.8 million short tons in fiscal year 2006, and 10.2 million short tons in fiscal year 2007. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Hawaii has experienced growth in cruise ship passenger volumes in recent years. The number of cruise ship visitor arrivals has increased from 415,967 in 2006 to 501,698 in 2007, a 20.6% increase. However, as described in the next paragraph, two cruise ships have been or will be redeployed away from the Hawaii market during the first half of 2008.

Norwegian Cruise Lines ("NCL") currently homeports two cruise ships, the Pride of America and the Pride of Aloha, providing the State with year-round inter-island service. NCL withdrew the Pride of Hawaii from Hawaii service in early February 2008 to operate in Europe as the Norwegian Jade. Plans were also announced by NCL to deploy the Pride of Aloha to Asia in May 2008, leaving the Pride of America to serve the Hawaii market. NCL and other cruise ships utilize the new cruise passenger terminal constructed at Pier 2, Honolulu Harbor.

Hawaii Superferry, Inc. ("HSF"), a private ferry operator, secured financing to construct two new inter-island ferry vessels and commence ferry service operations that will initiate a roll on/roll off, high-speed daily service for the transport of passengers and vehicles, including cars, trucks and commercial vehicles, between the harbors of Honolulu, Kahului, Nawiliwili and Kawaihae. Daily service between Honolulu and Kahului and service between Honolulu and Nawiliwili commenced with a single vessel for several days in August 2007. A second vessel is expected to be placed into service approximately 18 months later when daily service between Honolulu and Kawaihae will commence.

The Hawaii Supreme Court ruled after operations began that an environmental assessment must be performed with respect to certain improvements at Kahului Harbor intended for use by HSF. A related circuit court decision ruled that HSF could not operate at Kahului Harbor until an environmental assessment was completed. The Hawaii State Legislature convened a special session, and Act 2 was enacted on November 2, 2007 to allow large capacity ferry vessel companies such as HSF to operate under certain conditions while the required environmental reviews are conducted. Daily service between Honolulu and Kahului Harbors commenced December 13, 2007 in accordance with Act 2.

Air Transportation. The State operates and maintains 15 airports on six islands within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls for 4,579 vehicles, HNL is the most important in the State airports system. The airfield at Barber's Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

Kahului Airport on the island of Maui, Hilo International Airport (renamed from General Lyman Field) at Hilo and Kona International Airport at Keahole (both on the island of Hawaii), and Lihue Airport on the island of Kauai, also service direct flights to and from the continental United States.

According to data from the Airports Council International, HNL is the 60th busiest air terminal in the world, ranking 25th in the United States in total passengers serviced in 2006. In calendar year 2007, HNL recorded 310,607 aircraft operations. In addition, HNL passenger counts for calendar year 2007 increased by 6.5% to 21,346,026.

Until April 1, 2008, inter-island air travel in Hawaii was primarily served by Aloha Airlines and Hawaiian Airlines. In June 2006, Mesa Air Group began inter-island service as Go! Airlines. On March 21, 2008, Aloha Airlines, Inc. filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Hawaii. On April 1, 2008, Aloha Airlines ceased all passenger operations. On April 28, 2008, Aloha Airlines, which had handled approximately 85% of Hawaii's inter-island air cargo, ceased all air cargo operations. Pending the closing of an announced sale of the air cargo operations, such operations have recommenced. The State is unable to predict what may be the effects on its economy of the cessation by Aloha Airlines of its passenger operations and the disruption of its air cargo operations.

In October 2007, the Airports Division and a majority of the airlines executed the First Amended Lease Extension Agreement effective January 1, 2008. The terms and conditions of the Airport-Airline Lease were amended to reflect a rate-making methodology that recovers costs of specific Airports System facilities from the airlines that directly use them. An Airport System Support Charge Cost Center is set up to serve as the residual cost center to ensure Airport System operating revenues are sufficient to cover Airport System operating costs.

The Airports Division is in the process of implementing a modernization program which will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahalui, Kona and Lihue. The program is currently estimated to cost in excess of $2.0 billion through 2018 and will be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,315 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 168 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 940 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The following table shows the motor vehicle registrations in the State for the years 2001 and 2007, inclusive.

Table 11

MOTOR VEHICLE REGISTRATION

YEAR	VEHICLES
2001	967,151
2002	987,598
2003	1,030,843
2004	1,070,012
2005	1,119,838
2006	1,157,027
2007	1,167,240

Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2006-2007 school year, system enrollment decreased from the 2005-2006 school year to a total of 179,234 in 285 K-12 public schools. In the 2007-2008 school year, system enrollment decreased to a total of 178,369. The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in Department of Education schools has decreased, while the number of charter school students has increased.

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:

- a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law and medicine;
- a comprehensive, primarily baccalaureate institution at Hilo, offering professional programs based on a liberal arts foundation and selected graduate degrees;
- an upper division institution at West Oahu, offering liberal arts and selected professional studies; and
- 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 2006, 49,990 students attended the University of Hawaii system, 20,357 of them on the Manoa Campus. In the fall of 2007, 50,804 students attended the University of Hawaii system, 20,006 of them on the Manoa Campus.

State Housing Programs

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and consequently attempts to cover all such phases, from construction through permanent financing, and also attempts to solve or mitigate the housing problem by using both the public and private sectors. To this end the State has undertaken, among other things, facilitating the development of real property and the construction of dwelling units thereon in partnerships with qualified developers and contractors. The State's participation in such partnerships has consisted of construction financing (interim financing), including land acquisition. Other State efforts include construction and permanent financing for developers of residential housing; development by the State itself of single and multifamily residential housing units on land owned by the State or on land purchased or to be purchased for such purpose or on land to be leased from others; and loans to qualified residents of the State who are qualified purchasers of affordable dwelling units.

The State also administers federal and state housing assistance programs for low-income families. Included are the management of low-rent public housing units, the administration of the Section 8 tenant-based housing assistance program and other federal and State programs intended to provide very low to low-income residents with safe, decent and sanitary housing.

The State housing programs previously were carried out by the Housing and Community Development Corporation of Hawaii (the "HCDCH"). On July 1, 2006, pursuant to Act 196, SLH 2005, as amended by Act 180, SLH 2006, the HCDCH was bifurcated into the Hawaii Public Housing Authority (the "HPHA") and the Hawaii Housing Finance and Development Corporation (the "HHFDC"). The assets, obligations and functions of the HCDCH were transferred to the HHFDC and to the HPHA, as provided by such Acts. The HHFDC performs the function of housing finance and development. The HHFDC is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the HHFDC and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State. The HPHA performs the function of developing and maintaining public housing.

APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

(commences on page B-1)

PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE

STATE OF HAWAII AS OF JUNE 30, 2007 AND

INDEPENDENT AUDITORS' REPORT

(commences on page B-17)

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APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

The statistical information presented by this Part I of Appendix B is the most current such information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.

INFORMATION ABOUT INDEBTEDNESS

The following table sets forth the State's total indebtedness, including reimbursable general obligation bonds excludable for the purposes of calculating the constitutional debt limit.

SUMMARY OF TOTAL INDEBTEDNESS OF THE STATE OF HAWAII

GENERAL OBLIGATION BOND INDEBTEDNESS
As of July 1, 2007

General obligation bonds outstanding		$4,357,629,319
Less excludable reimbursable general obligation bonds [1]		
Highways	$ 67,044,895	
Airports	37,700	
University of Hawaii	4,632,376	
Parking facilities	539,481	
Hawaiian Home Lands	873,504	
Subtotal excludable reimbursable general obligation bonds	$ 73,127,956	
Less all general obligation bonds maturing in the current year	$294,293,290	$ 367,421,246
Net general obligation bonds outstanding		$3,990,208,073

REVENUE BOND INDEBTEDNESS [2]
As of July 1, 2007

Revenue bonds outstanding:		
Airports:		
Airports system	$610,880,000	
Airports special facility	36,895,000	$ 647,775,000
Housing		
Single family mortgage purchase	200,955,000	
Multifamily	137,721,935	338,676,935
Harbors:		
Revenue		260,925,000
Highway:		
Revenue		268,425,000
Hawaiian Home Lands		0
University revenue projects		278,320,000
Total revenue bonds outstanding		$1,794,121,935

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS [3]
As of July 1, 2007

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$ 674,410,000
Utilities serving the general public	857,900,000
Industrial enterprises	17,937,500
Processing enterprises	7,700,000
Not-for-profit secondary schools, colleges and university serving the general public	30,455,000
Total special purpose revenue bonds outstanding	$1,588,402,500

[1] *See "DEBT STRUCTURE—Exclusions" and "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix A for exclusions and sources of reimbursement.*
[2] *All revenue indebtedness is payable solely from the revenues derived from rates, rentals, fees and charges except for the revenue bonds issued for the airports system, which are payable from both the revenues of the airports system derived from rates, rentals, fees and charges and from the aviation fuel tax, and except for a portion of the revenue bonds issued for the University of Hawaii, which is payable from both the revenues of the University derived from tuition, fees and charges and from tobacco settlement funds.*
[3] *All special purpose revenue indebtedness is payable solely from receipts derived from payments by special purpose entities or persons under contract or from any security for such contract or special purpose revenue bonds.*

The following table presents a summary of the calculation of the State's constitutional debt limit as of July 1, 2007.

SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII

NET GENERAL FUND REVENUES FOR THE STATE OF HAWAII FOR THE PRECEDING THREE FISCAL YEARS	2004-2005	2005-2006	2006-2007
Total General Fund revenues exclusive of Grants from the federal government	$4,486,358,701	$4,924,971,473	$5,142,064,701
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	14,898,119	20,952,143	19,444,433
Net General Fund revenues	$4,471,460,582	$4,904,019,330	$5,122,620,268
Sum of net General Fund revenues for preceding three fiscal years	$14,498,100,180		
Average of preceding three fiscal years	$4,832,700,060		
18½% of average net General Fund revenues of the three preceding years ended June 30, 2005, 2006, and 2007	$894,049,511[1]		

[1] *The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2007, and on the Bonds, after exclusions permitted by the Constitution, is $550,695,881 in the fiscal year ending June 30, 2009.*

GENERAL OBLIGATION BONDS OUTSTANDING
AS OF MARCH 1, 2008

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds [1]			
From State Special Funds for			
Highways	$ 54,895,738		
Airports	$ 28,275		
Small Boat Harbors [2]	$ 4,724,256		
Hawaiian Home Lands	$ 730,597		
University of Hawaii	$ 4,317,376		
Parking Facilities	$ 263,869		
Waiahole Water System [2]	$ 7,877,947		
Convention Center [2]	$ 179,652,718		
Total for Special Funds	$ 252,490,775		
Total Reimbursable General Obligation Bonds		$ 252,490,775	6.15 %
Non-Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$3,855,118,237		
Total Non-reimbursable General Obligation Bonds		$3,855,118,237	93.85%
Total General Obligation Bonds Issued and Outstanding		$4,107,609,012	100.00%

[1] *See discussion above concerning sources of reimbursement, including taxes. The figures in this table should not be taken as an indication that in all instances the reimbursement to the General Fund will in fact be made or that such reimbursement will be made in whole.*
[2] *Not excludable for debt limit purposes.*

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SUMMARY OF DEBT SERVICE
As of March 1, 2008

The following table sets forth a summary of the debt service payable on all outstanding general obligation bonded indebtedness of the State of Hawaii as of March 1, 2008, including the Refunded Bonds, and on the Bonds. Further detail concerning the State's various outstanding general obligation indebtedness is set forth in Appendix D hereto.

							Debt Service on Series DK, DL and DM[3]		
Fiscal Year Ending June 30	Total Remaining Principal Amount[1]	Total Principal Payable	Total Interest Payable	Total Debt Service Payable	Less Amounts Reimbursable to General Fund[2]	Net Debt Service Payable	Total Principal Payable	Total Interest Payable	Total Debt Service Payable
2009	$4,046,724,012	$338,569,472	$226,963,378	$565,532,850	$55,438,303	$510,094,547	$3,835,000	$19,212,401	$533,141,948
2010	3,708,154,540	333,834,540	195,037,896	528,872,436	40,419,192	488,453,244	3,910,000	20,155,181	512,518,425
2011	3,374,320,000	355,720,000	164,951,459	520,671,459	43,207,746	477,463,713	4,055,000	20,011,293	501,530,006
2012	3,018,600,000	315,505,000	147,788,200	463,293,200	34,557,440	428,735,760	22,770,000	19,848,688	471,354,448
2013	2,703,095,000	329,140,000	131,611,705	460,751,705	31,187,353	429,564,352	23,695,000	18,923,479	472,182,831
2014	2,373,955,000	299,665,000	115,059,332	414,724,332	21,403,230	393,321,102	24,715,000	17,902,937	435,939,039
2015	2,074,290,000	299,055,000	99,797,357	398,852,357	20,417,227	378,435,130	21,060,000	16,752,246	416,247,376
2016	1,775,235,000	231,170,000	85,115,596	316,285,596	13,303,513	302,982,083	22,005,000	15,805,996	340,793,079
2017	1,544,065,000	255,805,000	73,041,052	328,846,052	11,226,184	317,619,868	23,040,000	14,769,871	355,429,739
2018	1,288,260,000	199,235,000	61,389,492	260,624,492	4,866,365	255,758,127	24,135,000	13,675,396	293,568,523
2019	1,089,025,000	162,920,000	52,761,103	215,681,103	426,158	215,254,945	20,525,000	12,468,646	248,248,591
2020	926,105,000	148,390,000	44,946,159	193,336,159	426,494	192,909,665	21,465,000	11,526,021	225,900,686
2021	777,715,000	157,150,000	37,327,021	194,477,021	426,778	194,050,243	22,450,000	10,540,116	227,040,359
2022	620,565,000	164,050,000	29,240,433	193,290,433	422,774	192,867,659	23,550,000	9,442,616	225,860,275
2023	456,515,000	130,075,000	21,300,741	151,375,741	423,147	150,952,594	24,710,000	8,282,629	183,945,223
2024	326,440,000	127,920,000	14,886,959	142,806,959	424,937	142,382,022	25,920,000	7,073,274	175,375,296
2025	198,520,000	92,590,000	8,920,728	101,510,728	425,635	101,085,093	27,205,000	5,787,805	134,077,898
2026	105,930,000	76,505,000	4,802,655	81,307,655	426,369	80,881,286	28,550,000	4,442,225	113,873,511
2027	29,425,000	29,425,000	1,471,250	30,896,250	333,970	30,562,280	29,965,000	3,026,125	63,553,405
2028	0	0	0	0	0	0	31,450,000	1,544,150	32,994,150

1 *Remaining principal amount, as of commencement of fiscal year, of all general obligation bonded indebtedness of the State that was outstanding as of March 1, 2008.*

2 *These figures show debt service on outstanding general obligation bonds of the State issued for certain activities, undertakings, improvements and systems of the State where the payment of such debt service from the General Fund is required by statute to be reimbursed to the General Fund from the respective income, revenues or user taxes pertaining to the particular activity, undertaking, improvement or system and regardless of whether excludable under the provisions of the Constitution when determining the power of the State to incur indebtedness. Consequently, the amount of reimbursement to the General Fund in the table above is greater than the excludable reimbursement under the Constitution. For example, of the $55,438,303 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2009 only $15,004,402 is an excludable reimbursement for purposes of the debt limit calculation under the Constitution. See "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix A for the sources of reimbursement, including taxes.*

3 *As of the date of delivery thereof.*

BONDED DEBT PER CAPITA
(Amounts in thousands except ratio data)

Fiscal Year	Population [1]	General Obligation Bonded Debt [2&3]	Less Debt Service Moneys Available [2]	Net General Obligation Bonded Debt	Net General Obligation Bonded Debt Per Capita
2002	1,241	$3,568,001	$79	$3,567,922	$2,884
2003	1,249	$3,634,738	$148	$3,634,590	$2,910
2004	1,262	$3,954,192	$72	$3,954,120	$3,133
2005	1,275	$4,256,633	$184	$4,256,449	$3,338
2006	1,289	$4,322,964	$7,226	$4,315,738	$3,348

1 *Source: Hawaii State Department of Business, Economic Development and Tourism.*
2 *Source: Hawaii State Department of Accounting and General Services, Accounting Division.*
3 *Excludes Enterprise Funds and Component Unit-UH General Obligation Bonds.*

Certificates of Participation

In November 1998, the State executed a Lease Purchase Agreement related to the issuance of $54,850,000 in certificates of participation ("COPS"), the proceeds of which were used to purchase a state office building in Kapolei; in December 2000, the State executed a second Lease Purchase Agreement for the issuance of $23,140,000 in COPS, the proceeds of which were used to purchase the No. 1 Capitol District State Office Building in Honolulu, and in December 2006, the State executed a Facility Lease Agreement related to the issuance of $24,500,000 of COPS, the proceeds of which were used to construct a headquarters office and conference center building for the Department of Hawaiian Homelands in Kapolei. Each building is located on the island of Oahu. The COPS are secured by rental payments payable from lawfully available funds of the State, including the State's General Fund. The rental payments do not constitute an obligation for which the State has levied any form of taxation. The COPS do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State. The State does not anticipate that it will issue COPS during the current fiscal year, and would require legislative authorization to do so.

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

The investment policies of the State's cash management program are: (a) Safety: To safeguard State funds by securing cash, personnel and facilities and requiring full collateralization of State deposits; (b) Liquidity: To ensure the availability of funds to meet State expenditures by the timely forecasting of cash requirements and the selection of securities that can be promptly converted into cash with a minimum risk in principal; and (c) Yield: To maximize interest earnings on State investments by investing funds in excess of immediate needs to the maximum extent possible.

Securities in Which State Funds May Be Invested

The General Fund, the various Special Funds and other funds are held in the State Treasury. The moneys held in the State Treasury, which in the judgment of the Director of Finance are in excess of the amounts necessary to meet the immediate requirements of the State, are invested in securities prescribed in Section 36-21, HRS. The securities in which State funds may be invested include the following: (a) U.S. Treasury obligations, including Treasury bills, notes and bonds; (b) obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest; (c) time certificates of deposit in federally insured financial institutions; (d) interest bearing accounts with federally insured financial institutions; (e) repurchase agreements with federally insured banks and savings and loan associations; (f) student loan resource securities with a triple A rating; (g) commercial paper with at least an A1/P1 rating; (h) bankers' acceptances with at least an A1/P1 rating; and (i) money market mutual funds which invest solely in U.S. Treasury obligations or obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. Section 36-21, HRS, prohibits the State from investing in securities which require the State to make any swap, counter or other payments other than the original purchase price plus accrued interest.

In the investment of State funds, it is the policy of the State to give due regard to depositories doing business within the State. This policy takes into account the beneficial effects to the State of using local depositories. Deposits are allocated among local financial institutions based upon the yield offered on investments and their ability to fully collateralize such investments.

As of March 1, 2008, 22% of the State's investment portfolio consisted of repurchase agreements with banks, 14% consisted of time certificates with banks, 30% consisted of student loan resource securities with a triple A rating, and 34% consisted of Federal Agency Securities.

Safety of Public Funds

All State funds deposited with financial institutions are deemed, under State law, to be deposited in the State Treasury. Except for that portion of any deposit which is insured by an agency of the federal government, e.g., the Federal Deposit Insurance Corporation (FDIC), all deposits of State funds must be fully collateralized by the depository with securities deposited with the Director of Finance as provided in Section 38-3, HRS. Pursuant to the authority granted the Director of Finance under Section 38-3, the valuation policy for securities pledged as collateral for the protection of State deposits is 90% of the outstanding balance of mortgage-backed pass-through certificates, i.e., Collateralized Mortgage Obligations backed by Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) securities, 100% of letters of credit issued by the Federal Home Loan Bank, and 95% of par or face value of all other securities accepted by the State for protection of State deposits.

With respect to the types of securities pledged as collateral, Section 38-3 generally requires such securities to be investment grade financial instruments with a high degree of liquidity or marketability. Accordingly, the State will not accept, as collateral, derivative products or other securities that move inversely to the general level of interest rates. Collateralized mortgage obligations that do not pass the federal Financial Institutions Examination Council test for high-risk securities are also unacceptable as collateral for State deposits.

The collateral pledged by depositories is monitored by the Director of Finance on a computerized system, which determines the adequacy of the amount of collateral pledged by depositories on a daily basis. Approximately 70% of the securities used to collateralize repurchase agreements are marked to market regularly.

The State utilizes a uniform repurchase agreement in all such transactions. Such form requires sellers to mark purchased securities to market on a monthly basis, or more frequently at the State's request. Such form further requires sellers to increase the collateral securities in the State's account to maintain market value of the purchased securities in an amount equal to or greater than the original purchase price.

Investment Yield

Cash positions of State moneys in depositories are reviewed at the beginning of each work day. A determination is made as to the amount of moneys needed to meet payment of State obligations, e.g., payroll, debt service, vendor and contract payments. Any amounts in excess of those requirements are then committed to investment to maximize interest income to the State. Interest earned on moneys in the State Treasury which are requested to be invested by a special fund agency are credited to the special fund agency. All investments of the State are made by the Director of Finance. The length or term of an investment is determined by the cash flow requirements of the particular program and the general direction of interest rates.

For the 6-month period ended December 31, 2007, the State earned accrued interest of $35.3 million on its General Fund investments. This amount represents an average return on investment for the General Fund of 4.91%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2003 to 2007. Following thereafter is the statement of revenues and expenditures of the General Fund for each such fiscal year including the statement of revenues and expenditures for each such fiscal year. See also the schedules relating to the General Fund accompanying the General Purpose Financial Statements from the State's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007, in Part II of Appendix B.

The data set forth in the balance sheets and other financial statements have been prepared by the Comptroller of the State. The General Fund is presented and reported using the modified accrual basis of accounting. Under such basis, revenues are recorded when collected in cash except for (a) revenues susceptible to accrual, i.e., measurable and available and (b) revenues received prior to the period of benefit. Revenues for which receivables have been recorded (and other noncash assets generally) are fully reserved until such time as they are converted to cash.

Expenditures are recorded at the time vouchers for payment are filed with the Comptroller. At the end of a fiscal year, existing liabilities for which payment is due are vouchered and recorded as expenditures as of the end of the fiscal year. Other liabilities for which payment is not due, and obligations in the form of open purchase orders, are recorded as encumbrances at the end of a fiscal year and are not recorded as expenditures until the encumbrances are subsequently liquidated.

General fixed assets purchased or constructed are recorded initially as expenditures and are subsequently reflected at cost in the General Fixed Assets Account Group. Depreciation on general fixed assets is not recorded in the general accounting records.

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BALANCE SHEET OF THE GENERAL FUND
OF THE STATE OF HAWAII
As of June 30

(AMOUNTS IN THOUSANDS)

	2003	2004	2005	2006	2007
ASSETS:					
Cash	$183,955	$310,117	$ 153,227	$ 272,209	$ 171,720
Advances to other funds	-	-	-	-	-
Due from other funds	113,600	135,100	131,168	162,000	154,083
Due from Component Units	20,000	20,000	20,000	19,300	33,830
Receivables					
Taxes	283,300	304,900	338,300	333,900	388,100
Notes	386	423	6,324	4,700	4,175
Other	73	71	5,179	6,565	9,514
Total receivables	283,759	305,394	349,803	345,165	401,789
Investments	46,568	16,585	478,199	719,624	832,645
TOTAL ASSETS	$647,882	$787,196	$1,132,397	$1,518,298	$1,594,067
LIABILITIES AND FUND EQUITY					
Liabilities:					
Vouchers payable	$69,116	$99,545	$85,918	$157,063	$76,367
Other accrued liabilities	55,021	55,861	57,899	65,018	153,408
Due to other funds	148	72	184	83	42
Due to Component Units	5,769	5,121	9,026	7,965	41,558
Deferred revenue	15,000	7,500	13,800	24,600	26,482
TOTAL LIABILITIES	$145,054	$168,099	$166,827	$254,729	$297,857
FUND EQUITY:					
Reserves:					
Unrealized receivables	$ 400	$ 435	$ 6,336	$4,712	$4,185
Encumbrances	202,949	208,114	201,362	231,306	327,739
Unencumbered allotments	9,013	9,208	12,102	13,563	82,975
Total reserves	212,362	217,757	219,800	249,581	414,899
Unreserved fund balance:					
Designated for future expenditures	23,048	19,600	30,701	78,841	224,260
Undesignated	267,418	381,740	715,069	935,147	657,051
Total fund equity	502,828	619,097	965,570	1,263,569	1,296,210
TOTAL LIABILITIES AND FUND EQUITY	$647,882	$787,196	$1,132,397	$1,518,298	$1,594,067

REVENUES AND EXPENDITURES OF THE GENERAL FUND
OF THE STATE OF HAWAII
(FOR THE FISCAL YEARS SHOWN)
(AMOUNTS IN THOUSANDS)

	2002-2003	% of Total	2003-2004	% of Total	2004-2005	% of Total	2005-2006	% of Total	2006-2007	% of Total
REVENUES:										
General excise tax	$1,771,629	51.89	$1,893,916	51.06	$2,139,798	50.97	$2,359,316	50.83	$2,632,485	54.24
Income tax-corporation	8,162	0.24	60,653	1.64	90,304	2.15	115,660	2.49	75,151	1.55
Income tax-individual	1,042,526	30.53	1,193,688	32.18	1,394,360	33.22	1,548,671	33.37	1,543,419	31.80
Service companies tax	114,115	3.34	99,505	2.68	108,686	2.59	120,678	2.60	124,017	2.56
Liquor licenses and taxes	41,186	1.21	41,250	1.11	43,737	1.04	45,955	0.99	46,034	0.95
Tobacco licenses and taxes	71,273	2.09	78,383	2.11	84,068	2.00	86,827	1.87	84,247	1.74
Insurance premiums tax	73,240	2.14	78,142	2.11	83,077	1.98	88,068	1.90	94,377	1.94
Inheritance and estate tax	15,524	0.45	9,830	0.27	12,712	0.30	4,017	0.09	162	0.00
Banks and financial corporation tax	20,842	0.61	(533)	(0.01)	36,520	0.87	16,324	0.35	17,012	0.35
Transient accommodations tax[1]	766	0.02	6,028	0.15	12,689	0.30	16,129	0.35	6,382	0.13
Conveyance tax	6,517	0.20	9,851	0.27	12,585	0.30	20,160	0.43	7,749	0.16
Total taxes	3,165,780	92.72	3,470,713	93.57	4,018,536	95.72	4,421,805	95.27	4,631,035	95.43
Charges for current service and Other revenues	248,730	7.28	238,595	6.43	179,587	4.28	219,590	4.73	221,977	4.57
TOTAL REVENUES	$3,414,510	100.00	$3,709,308	100.00	$4,198,123	100.00	$4,641,395	100.00	$4,853,012	100.00
EXPENDITURES:										
General government	$332,332	10.04	$315,781	9.39	$384,203	10.52	$366,761	9.20	$355,090	7.96
Public safety	187,167	5.66	187,401	5.57	204,390	5.59	222,855	5.59	256,072	5.74
Conservation of natural resources	29,686	0.90	27,151	0.81	26,841	0.73	32,936	0.83	38,445	0.86
Health	361,804	10.93	368,315	10.95	389,984	10.67	455,388	11.42	558,748	12.53
Welfare	528,519	15.97	565,325	16.81	623,599	17.07	652,371	16.37	702,526	15.76
Education:										
Higher	462,453	13.98	459,640	13.67	510,194	13.96	574,836	14.42	660,336	14.81
Lower and others	1,328,514	40.15	1,367,845	40.67	1,439,059	39.39	1,593,538	39.98	1,781,873	39.96
Culture-recreation	35,250	1.07	34,386	1.02	38,485	1.05	40,574	1.02	42,259	0.95
Urban redevelopment & housing	8,347	0.25	8,333	0.25	7,246	0.20	14,486	0.36	28,060	0.63
Economic development and assistance	34,674	1.05	29,332	0.86	29,791	0.82	32,162	0.81	35,586	0.80
TOTAL EXPENDITURES	$3,308,746	100.00	$3,363,509	100.00	$3,653,792	100.00	$3,985,907	100.00	$4,458,995	100.00
OTHER FINANCING SOURCES (USES):										
Transfers in	149,485	-	15,355	-	68,225	-	11,485	-	50,558	-
Transfers out	(349,105)	-	(259,843)	-	(296,458)	-	(386,559)	-	(432,737)	-
Other	17,955	-	14,958	-	30,375	-	17,585	-	20,803	-
TOTAL OTHER FINANCING SOURCES (USES)	$(181,665)	-	$(229,530)	-	$(197,858)	-	$(357,489)	-	$(361,376)	-

[1] *Act 156, SLH 1998 distributed the Transient Accommodations Tax (TAT) revenues: 44.8% to the counties, 17.3% to the Convention Center Special Fund and 37.9% to the Tourism Special Fund. On June 30, 2000, the Convention Center Capital and Operations Special Fund ceased to exist, leaving the 17.3% Convention Center share to be distributed to the general fund. On July 1, 2002, Act 253, SLH 2002 redirected these deposits to a Convention Center Special Fund; provided that beginning January 1, 2002 TAT Convention Center Special Fund revenues in excess of $31 million a calendar year shall be deposited into the general fund. Act 250, SLH 2002 redirected a portion of the Tourism Special Fund deposits to other tourism-related special funds as follows: 5.3% to the Trust Fund and 32.6% to the Tourism Special Fund; provided that beginning on July 1, 2002 the TAT collected for the Tourism Special Fund in excess of $62.292 million for the fiscal year shall be deposited into the following funds: 90% of the first $1 million shall be deposited into the state parks special fund, 10% of the first $1 million shall be deposited into the Hawaii statewide trail and access program; provided that the total amount deposited into the state parks special fund and to the Hawaii statewide trail and access program shall not exceed $1 million in any fiscal year. Act 113, SLH 2003, Section 2(b)(2)(A) redirected the TAT: from the first $1 million in revenues deposited in excess of $62.292 million, 10% of the first $1 million shall be deposited into the special land and development fund; provided that the total amount deposited into the state parks special fund and to the special land and development fund for the Hawaii statewide trail and access program shall not exceed $1 million in any fiscal year. Act 235, SLH 2005 increases allocation to tourism special fund to 34.2% and repeals TAT trust fund, effective July 1, 2007. Act 209, SLH 2006, increases ceiling on allocation to the convention center enterprise fund to $33 million, effective on July 1, 2006.*

REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

The Constitution requires that there be established by law a Council on Revenues (the "Council") to prepare revenue estimates of the State government and to report such estimates to the Governor and the Legislature. The revenue estimates serve as the basis for the Governor's budget preparation and the Legislature's appropriation of funds and enactment of revenue measures. If the Council's latest revenue estimates are not used by the Governor or the Legislature for budget preparation or appropriations, respectively, then the party not using the latest estimates must publicly state the reasons for using a differing revenue estimate. Act 278, SLH 1980, provided for the establishment of such a council consisting of seven members, with three members appointed by the Governor and two members each appointed by the President of the Senate and the Speaker of the House. The Council reports its estimates and revisions each June 1, September 10, January 10, and March 15. The Council also revises its estimates when it determines that such revisions are necessary or upon request of the Governor or the Legislature. The Council's estimates are used by the Department of Budget and Finance in formulating the State Multi-Year Program and Financial Plan, the Executive Budget, and the Executive Supplemental Budget for submission to the Legislature.

In March 2006, as General Fund tax revenue collections, inflation, tourism and construction continued to grow, the Council increased its General Fund tax revenues growth rate from 8.0% to 9.5% for fiscal year 2006 while lowering the growth rate from 7.5% to 6.5% for fiscal year 2007.

In June 2006, the Council retained its March forecast of General Fund tax revenues.

Actual fiscal year 2006 General Fund tax revenues increased by 10.9% as compared to the Council's forecast of 9.5%.

In September 2006, with inflation growing and visitor arrivals slowing, the Council reduced its general fund tax revenue growth rate from 6.5% to 6.0% for fiscal year 2007 and from 7.1% to 6.0% for fiscal year 2008.

In December 2006, the Council retained its projections for fiscal years 2007 and 2008 and made slight changes to its projections for fiscal years 2009 to 2013.

In March 2007, the Council retained its December 2006 projections of General Fund tax revenues.

In May 2007, based on actual collections for the first ten months of the fiscal year, the Council reduced its General Fund tax growth rates for fiscal year 2007 from 6.0% to 4.0%, but retained its growth rate projections for the other fiscal years.

Actual fiscal year 2007 General Fund tax revenues increased by 3.7% (as reported by the Department of Accounting and General Services) as compared to the Council's forecast of 4.0%.

In August 2007, the Council reduced its General Fund tax revenue growth rate from 6.0% to 5.7% for fiscal year 2008 and from 4.1% to 3.8% for fiscal year 2009, while slightly increasing its projections for fiscal years 2010 to 2012. There were no significant changes in the Council's economic outlook.

In January 2008, with the continued slowing of the economy, the Council reduced its General Fund tax revenue growth rate from 5.7% to 4.9% for fiscal year 2008, but increased it from 3.8% to 4.1% for fiscal year 2009.

In March 2008, based on actual tax revenue collections for the first eight months of the fiscal year and the continuing slowdown in the visitor and construction industries, the Council reduced its General Fund tax revenue growth rate from 4.9% to 3.9% for fiscal year 2008, but retained its growth rate projections for the other fiscal years.

The date of the next scheduled meeting of the Council is May 29, 2008. The State cannot predict whether or to what extent the Council will revise its revenue estimates following that meeting.

The management of the State has prepared the prospective financial information set forth below to present the revenue projections of certain tax collections and expenditures. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the State's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the projected course of action and the projected future financial performance of the State. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither the State's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for the fiscal year ended June 30, 2007, and estimates for the fiscal years ending June 30, 2008 and June 30, 2009.

GENERAL FUND FINANCIAL PLAN 2007-2009
(Millions of Dollars)

	Actual 2007	Estimated 2008	Estimated 2009
Resources			
Tax Revenues [1]	4,590.2	4,765.2	4,961.5
Non-tax Revenues	520.6	480.0	500.6
Judicial Branch Revenues	31.2	32.0	32.7
Other Revenue			
Sources/Adjustments [2]	—	9.7	(16.6)
Total Resources	5,142.1	5,286.9	5,478.3
Expenditures:			
Executive			
Operating	5,057.4	5,190.9	5,591.5
Capital Investment	269.4	50.0	0.0
Total Executive	5,326.8	5,240.9	5,591.5
Legislative	34.0	37.6	37.6
Judicial	134.1	143.8	151.8
OHA and Counties	3.5	3.1	3.1
Appropriation Lapses [3]	(117.4)	(65.0)	(65.0)
Total Expenditures	5,381.0	5,360.4	5,719.0
Resources over Expenditures	(238.9)	(73.5)	(240.7)
Carry-over Balance	732.3	493.4	419.9
Ending Balance [4]	493.4	419.9	179.2

1 *Reflects actual fiscal year 2007 tax revenue collections as reported by the Department of Accounting and General Services.*

2 *Includes tax credits, rebates, and other measures submitted to the 2008 Legislature.*

3 *Not included as an item in the financial statements under "FINANCIAL STATEMENTS" in Part 1 of this Appendix B nor in the projections of the Council on Revenues.*

4 *Fund balances do not include any Emergency and Budget Reserve Fund balances (actual 2007: $61.5 million; estimated 2008: $49.7 million and estimated 2009: $62.0 million). See Appendix A "Emergency and Budget Reserve Fund."*

Note: Totals may not add due to rounding.
Source: Department of Budget and Finance, March 2008.

In the General Fund financial plan, fiscal year revenues are recognized based on receipt while fiscal year expenditures are recognized when appropriations are expended in that year or encumbered. At the end of the fiscal year, encumbrances are not lapsed but are considered to be expenditures. Additionally, the Department of Education, by law, is allowed to carry over all of its unencumbered appropriations to the following fiscal year. For example, $43.6 million carried over from fiscal year 2007 to fiscal year 2008 by the Department of Education did not lapse and was considered to be expended in fiscal year 2007.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2007, and represent about 89% of the total General Fund revenues. Set forth below are the actual General Fund tax revenues for the fiscal year ended June 30, 2007, and estimated tax revenues for the fiscal years ending June 30, 2008, and June 30, 2009, based on the Council on Revenues' March 2008 projection.

GENERAL FUND TAX REVENUES
(Thousands of Dollars)

	Actual 2006-2007	Estimated 2007-2008	Estimated 2008-2009
General Excise and Use	$2,555,762	$2,679,774	$2,772,578
Income—Individual	1,559,690	1,602,316	1,685,375
Income—Corporation	81,834	89,620	92,423
Public Service Company	124,017	129,975	139,866
Insurance Premiums	92,196	83,334	84,020
Tobacco & Licenses	85,143	87,093	89,045
Liquor & Permits	46,034	47,094	48,141
Banks & Other Financial Corp.	16,599	17,804	19,409
Conveyance	7,033	12,116	12,347
Transient Accommodation	17,076	15,577	17,808
Miscellaneous	1,120	528	531
TOTAL BEFORE ADJUSTMENTS	$4,586,504	$4,765,231	$4,961,543
GROWTH RATE	3.4%	3.9%	4.1%

Source: Council on Revenues' report dated March 14, 2008.

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Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for the first seven months of fiscal year 2008 and the first seven months of fiscal year 2007, in each case as reported by the State Director of Taxation. The collections from all sources have exceeded $3.2 billion, an increase of $184.8 million over that realized during the corresponding period in the previous year. Cumulative General Fund accruals for the first seven months of fiscal year 2008 are up 6.1% over the same period in fiscal year 2007.

	July 1 to January 31	
	2007-2008	**2006-2007**
State Tax Collections—Source of Revenue	(Thousands of Dollars)	
Banks/Financial corporations[1]	$ 11,727	$ 9,681
Conveyances[1]	25,344	24,053
Employment security contributions	55,112	82,525
Fuel	98,526	97,891
General excise, license and registration fees	262	265
General excise and use[2]	1,528,097	1,470,336
Honolulu County Surcharge[3]	106,151	3
Income—corporations:		
Declaration of estimated taxes	70,840	78,755
Payment with returns	10,832	13,239
Refunds	(48,734)	(59,865)
Income—individuals[1]:		
Declaration of estimated taxes	207,529	193,468
Payment with returns	35,264	81,389
Withholding tax on wages	811,952	742,273
Refunds	(108,347)	(92,603)
Inheritance and estate	51	182
Insurance premiums	49,367	43,050
Liquor and permits	26,408	26,193
Motor Vehicle Tax/Fees, Etc.[4]	65,251	61,901
Public Service companies	74,271	70,712
Tobacco and licenses[1]	59,550	55,501
Transient Accommodations Fees/Time Share Occupation fees	5	6
Transient Accommodations Tax/Time Share Occupation Tax[1]	131,381	127,077
All other[5]	7	18
Total	$3,210,846	$3,026,050

[1] *Gross collection — does not reflect allocation to Special Funds.*
[2] *May also contain some revenue from the Honolulu County Surcharge.*
[3] *Allocated as of January. Taxpayers whose businesses are located outside of Oahu, but have business activities on Oahu may be subject to Honolulu County Surcharge tax.*
[4] *Includes State Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection Fees, Rental Vehicle Registration Fees and Rental Vehicle Surcharge Tax.*
[5] *Includes fuel retail dealer permits, penalties and interest on fuel tax.*

State Tax Collections—Distribution	July 1 through January 31	
	2007-2008	2006-2007
	(Thousands of Dollars)	
State General Fund	$2,733,807	$2,636,635
State Highway Fund	116,206	111,265
State Airport Fund	2,405	1,352
Boating Special Fund	951	955
Environmental Fund	1,010	1,028
Cigarette Stamp Administrative Fund	113	103
Cigarette Stamp Enforcement Fund	851	770
Election Campaign Fund	24	53
Employment Security Fund	55,112	82,525
Compliance Resolution Fund	-	-
Rental Housing Fund	12,672	12,027
Natural Area Reserve Fund	6,336	6,013
Convention Center Enterprise Fund	15,499	16,829
Land Conservation Fund	2,534	2,405
Transient Accommodation Tax Trust Fund	-	6,735
Tourism Special Fund	44,714	41,427
School Minor Repairs and Maintenance Fund	10	6
Public Libraries Fund	8	5
Domestic Violence/Child Abuse Neglect Fund	18	9
Cancer Research Fund	8,492	3,782
Trauma System Fund	934	-
Emergency Medical Service Fund	934	-
Subtotal	$3,002,630	$2,923,924
Honolulu County Surcharge	$106,151	$3
Distributions to Counties*:		
Fuel tax	43,206	45,192
Transient Accommodation Tax	58,859	56,931
Counties Total	$ 102,065	$ 102,123
TOTAL	$3,210,846	$3,026,050

* *Refers to distributions received by the Counties from the specified taxes.*
Source: State Department of Taxation: Tax Research and Planning.

STATE EMPLOYEES' RETIREMENT SYSTEM

A description of the Employees' Retirement System of the State of Hawaii for employees of the State and the counties is provided under "**EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System**" in Appendix A. The following statistical information addresses the entire System, including both State and county employees. The System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Employer Contribution Rate

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

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)	Funding Period (Years)
2003	14.55	26.0
2004	13.95[2]	22.6
2005	13.95[2]	25.7
2006	13.95[2]	35.2
2007	13.95[2]	25.5

[1] *Reflects Act 147, SLH 2002, which amended Section 88-122, HRS.*
[2] *Reflects Act 181, SLH 2004, which amended Sections 88-105,88-122,88-123, 88-124, 88-125 & 88-126, HRS.*

The decrease in 2004 is due to the new level percentage of pay approach enacted by Act 181, SLH 2004.

As seen above, the funding period (the number of years necessary to amortize the unfunded actuarial accrued liability of the System) was decreasing until 2005. In 2005 the funding period increased due to recognition of large actuarial losses. In 2006 the funding period increased due to a large increase in the liabilities associated with the adoption of new actuarial assumptions.

Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2005 and 2006 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2006 and 2007
(Includes all counties)

ASSETS	2006	2007
Total current assets	$ 9,529,371,264	$10,589,772,857
Present value of future employee contributions	997,174,277	1,178,598,532
Present value of future employer normal cost contributions	1,247,728,722	1,455,940,229
Unfunded actuarial accrued liability	5,132,027,504	5,106,773,175
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	$16,906,301,767	$18,331,084,793
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	$ 7,458,446,609	7,856,088,714
Present value of future benefits to active employees and inactive members	9,447,855,158	10,474,996,079
TOTAL LIABILITIES	$16,906,301,767	$18,331,084,793

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2007, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $5.107 billion. The System's funded ratios-assets divided by the actuarial accrued liability increased during fiscal year 2007 as shown below:

Funded Ratios

June 30, 2006	June 30, 2007
65.0%	67.5%

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PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2007 AND INDEPENDENT AUDITORS' REPORT

The following information is excerpted from the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007 ("CAFR"). For ease of reference, Part II of Appendix B retains the CAFR's pagination as shown on the immediately following excerpt from the Table of Contents of the CAFR..

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STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

RUSS K. SAITO
COMPTROLLER

HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

RUSS K. SAITO
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

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PART II: FINANCIAL SECTION

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Deloitte

Deloitte & Touche LLP
1132 Bishop St
Ste. 1200
Honolulu, HI 96813-2870
USA

Tel: +1 808 543 0700
Fax: +1 808 526 0225
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2007, which collectively comprise the State of Hawaii's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, and the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, and the Hawaii Community Development Authority. These financial statements reflect the following percentages of total assets and program revenues or additions for the indicated opinion units.

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Program Revenues / Additions
Governmental Activities	0%	0%
Business-Type Activities	87%	70%
Aggregate Discretely Presented Component Units	92%	67%
Fiduciary Funds	19%	100%

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, the University of Hawaii, the Hawaii Housing Finance Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, and the Hawaii Community Development Authority, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Hawaii's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2007, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and Statement of Revenue and Expenditures – Budget and Actual on pages 15 to 30, and 39 to 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the State of Hawaii's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the State of Hawaii's management. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 11 to the financial statements, the State of Hawaii adopted the provisions of Government Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, on July 1, 2006.

Deloitte + Touche LLP

May 12, 2008

As management of the State of Hawaii (the State), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3 – 7 of this report.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2007, by $9.0 billion (net assets). Of this amount, $3.0 billion (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors. Net assets of governmental activities decreased by $225.0 million and net assets of business-type activities increased by $195.2 million for a net decrease to the State of $29.8 million from the prior fiscal year.

Fund Highlights

At June 30, 2007, the State's Governmental Funds reported combined ending fund balances of $2.4 billion, a decrease of $489.7 million from the prior fiscal year. Of this amount, $326.4 million, or 13.7%, of total fund balances are available for spending at the State's discretion (unreserved fund balance) and the remaining $2.1 billion represent amounts reserved for specific purposes. The Proprietary Funds reported net assets at June 30, 2007, of $3.2 billion, an increase of $195.2 million during the fiscal year.

Long-Term Liabilities

The State's long-term liabilities decreased during the current fiscal year to $5.8 billion, a decrease of $295.3 million. During fiscal 2007, the State issued $350.0 million in general obligation bonds for the purpose of financing the Hawaiian Home Lands Trust settlement and public improvement projects.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, public safety, conservation of natural resources, highways, health, welfare, education, culture and recreation, urban redevelopment and housing, economic development and assistance, and interest on long-term debt. The business-type activities of the State include the Department of Transportation – Airports Division (Airports), Department of Transportation – Harbors Division (Harbors), and the Unemployment Compensation Fund, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The government-wide financial statements include not only the State itself (known as the Primary Government), but also the activities of seven legally separate Component Units: the Hawaii Community Development Authority, the Hawaii Health Systems Corporation, the Hawaii Housing Finance and Development Corporation, the Hawaii Hurricane Relief Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, and the University of Hawaii, comprised of the State's public institutions of higher education, for which the State is financially accountable. Financial information for these Component Units is reported separately from the financial information presented for the Primary Government itself. The Component Units issue separate financial statements containing management's discussion and analysis.

The government-wide financial statements can be found on pages 32 – 34 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary Funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, Governmental Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities in the government-wide financial statements.

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which are considered to be major funds. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison statement for the General Fund is located in the basic financial statements and the budgetary comparison statements for each of the Special Revenue Funds are located in the supplementary information section of this report.

The basic Governmental Funds financial statements can be found on pages 35 – 40 of this report.

Proprietary Funds

Proprietary Funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The State uses Enterprise Funds to account for the operations of Airports, Harbors, the Unemployment Compensation Fund, and its other business-type activities.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for Airports, Harbors, and the Unemployment Compensation Fund, each of which are considered to be major funds of the State. Conversely, the other business-type activities are combined into a single, aggregate presentation in the Proprietary Funds financial statements.

The basic Proprietary Funds financial statements can be found on pages 41 – 45 of this report.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the State. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

The basic Fiduciary Funds financial statements can be found on pages 46 – 47 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 54 – 115 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents the combining financial statements referred to earlier in connection with nonmajor Governmental and Fiduciary Funds. These statements are presented immediately following the notes to basic financial statements. The total columns of these combining financial statements carry to the applicable fund financial statements.

Government-Wide Financial Analysis

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the State). Separate financial statements for each of the State's Component Units, including their respective management's discussion and analysis, can be obtained from the Department of Accounting and General Services.

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $9.0 billion as of June 30, 2007, and decreased $29.8 million, or .3%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by $225.0 million, or 3.8%, and business-type activities had an increase of $195.2 million, or 6.4%. The following table was derived from the government-wide statement of net assets (2006 amounts have not been adjusted for restatements).

Summary Schedule of Net Assets

June 30, 2007 and 2006
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	$ 3,346,955	$ 3,283,092	$ 2,187,257	$ 1,682,585	$ 5,534,212	$ 4,965,677
Capital assets, net	8,382,521	8,727,056	2,145,259	2,068,620	10,527,780	10,795,676
Total assets	11,729,476	12,010,148	4,332,516	3,751,205	16,061,992	15,761,353
Liabilities:						
Long-term liabilities	4,802,431	5,153,777	955,032	898,990	5,757,463	6,052,767
Other liabilities	1,182,453	593,396	139,235	212,125	1,321,688	805,521
Total liabilities	5,984,884	5,747,173	1,094,267	1,111,115	7,079,151	6,858,288
Net assets:						
Invested in capital assets, net of related debt	3,597,174	3,709,504	1,278,608	1,272,249	4,875,782	4,981,753
Restricted	569,006	1,285,902	655,055	217,478	1,224,061	1,503,380
Unrestricted	1,578,412	1,267,569	1,304,586	1,150,363	2,882,998	2,417,932
Total net assets	$ 5,744,592	$ 6,262,975	$ 3,238,249	$ 2,640,090	$ 8,982,841	$ 8,903,065

Analysis of Net Assets

By far the largest portion of the State's net assets ($4.9 billion or 54.3%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets ($1.2 billion or 13.6%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets ($2.9 billion or 32.1%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2007, the State is able to report positive balances in all three categories of net assets for both governmental activities and business-type activities.

Changes in Net Assets

The State's net assets decreased by $29.8 million, or .3%, during the fiscal year ended June 30, 2007. Approximately 61.2% of the State's total revenues came from taxes, while 25.6% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 10.9% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, and general government.

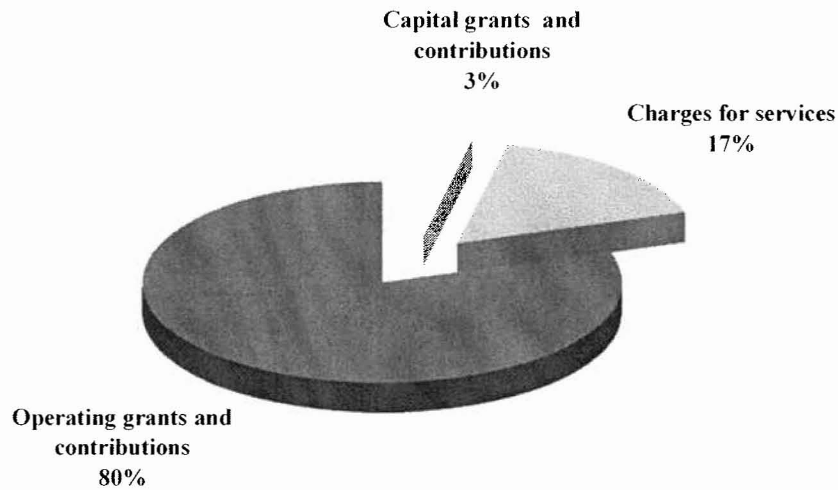
The following financial information was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year (2006 amounts have not been adjusted for restatements).

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2007 and 2006
(Amounts in thousands)

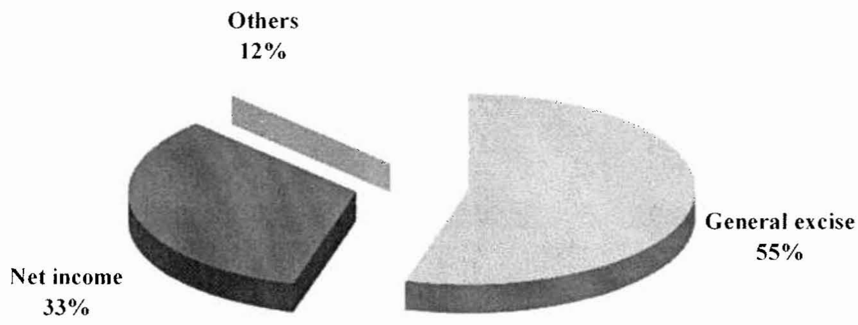
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	$ 378,500	$ 399,616	$ 488,564	$ 519,174	$ 867,064	$ 918,790
Operating grants and contributions	1,820,886	1,726,217	—	—	1,820,886	1,726,217
Capital grants and contributions	75,697	279,323	148,597	81,145	224,294	360,468
General revenues:						
Taxes	4,882,003	4,755,131	—	—	4,882,003	4,755,131
Interest and investment income	102,295	99,546	82,046	40,122	184,341	139,668
Other	—	—	—	—	—	—
Total revenues	7,259,381	7,259,833	719,207	640,441	7,978,588	7,900,274
Expenses:						
General government	541,889	455,008	—	—	541,889	455,008
Public safety	378,409	336,362	—	—	378,409	336,362
Highways	385,267	646,336	—	—	385,267	646,336
Conservation of natural resources	68,745	76,490	—	—	68,745	76,490
Health	833,669	690,265	—	—	833,669	690,265
Welfare	1,773,505	1,709,526	—	—	1,773,505	1,709,526
Lower education	2,288,641	2,151,891	—	—	2,288,641	2,151,891
Higher education	759,777	678,338	—	—	759,777	678,338
Other education	21,127	19,183	—	—	21,127	19,183
Culture and recreation	92,444	98,121	—	—	92,444	98,121
Urban redevelopment and housing	73,991	87,789	—	—	73,991	87,789
Economic development and assistance	148,164	215,578	—	—	148,164	215,578
Interest expense	118,708	172,673	—	—	118,708	172,673
Airports	—	—	329,942	292,086	329,942	292,086
Harbors	—	—	76,831	61,408	76,831	61,408
Unemployment compensation	—	—	112,411	105,786	112,411	105,786
Nonmajor proprietary fund	—	—	4,871	2,587	4,871	2,587
Total expenses	7,484,336	7,337,560	524,055	461,867	8,008,391	7,799,427
Change in net assets	(224,955)	(77,727)	195,152	178,574	(29,803)	100,847
Net assets – beginning of year – as previously reported	6,262,975	6,340,702	2,640,090	2,465,411	8,903,065	8,806,113
Adjustments	(293,428)	—	403,007	(3,895)	109,579	(3,895)
Net assets – beginning of year – as restated	5,969,547	6,340,702	3,043,097	2,461,516	9,012,644	8,802,218
Net assets – end of year	$ 5,744,592	$ 6,262,975	$ 3,238,249	$ 2,640,090	$ 8,982,841	$ 8,903,065

The following charts depict revenues of the governmental activities for the fiscal year:

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2007



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2007



Analysis of Changes in Net Assets

The State's net assets decreased by $29.8 million during the current fiscal year. This decrease is explained in the governmental and business-type activities discussion below, and is primarily due to decrease in net assets of governmental activities of $225.0 million offset by increases in the net assets of Airports, Harbors, the Unemployment Compensation Fund, and Nonmajor Proprietary Funds of $34.1 million, $25.0 million, $50.9 million, and $85.2 million, respectively.

Governmental Activities

Governmental activities decreased the State's net assets by $225.0 million. The key elements of this decrease are a result of higher expenses for health, lower and higher education, and urban redevelopment and housing.

	Governmental Activities (Amounts in thousands)	
	2007	**2006**
General revenues:		
Taxes	$ 4,882,003	$ 4,755,131
Interest and investment income and other	102,295	99,546
Total general revenues	4,984,298	4,854,677
Expenses, net of program revenues:		
General government	300,506	256,302
Public safety	299,561	266,014
Highways	266,934	527,221
Conservation of natural resources	15,183	18,401
Health	597,832	405,508
Welfare	600,891	631,621
Lower education	2,009,821	1,899,849
Higher education	759,777	678,338
Other education	20,725	14,174
Culture and recreation	82,260	88,261
Urban redevelopment and housing	7,831	(136,591)
Economic development and assistance	129,224	110,633
Interest expense	118,708	172,673
Total governmental activities expenses, net of program revenues	5,209,253	4,932,404
Decrease in governmental activities net assets	$ (224,955)	$ (77,727)

Tax revenues increased by $126.9 million, or 2.7%, from the previous fiscal year. The increase was primarily due to an increase in general excise taxes of $300.0 million, a decrease in individual and corporate income taxes of $54.7 million, and a decrease in transient accommodations taxes of $116.8 million collected by the Hawaii Tourism Authority, which has been reclassified as a Component Unit in fiscal 2007.

Highways net expenses decreased by $260.3 million, or 49.4%, from the previous fiscal year due to a decrease in depreciation expense of $31.1 million and an increase in capitalization of capital project costs of $300.0 million.

Health net expenses increased by $192.3 million, or 47.4%, from the previous fiscal year due to an increase in expenditures for medical services programs, including public health services, and adult and adolescent behavioral health services.

Lower education net expenses increased by $110.0 million or 5.8% from the previous fiscal year due primarily to increase classroom instruction expenses, such as salaries and benefits for teachers and instructional materials including pupil-use technology of $258.9 million; increase in repairs and renovation expenses of $55.3 million; offset by an increase in capitalization of major repairs and renovation costs of $176.7 million and an increase in operating grants of $26.6 million.

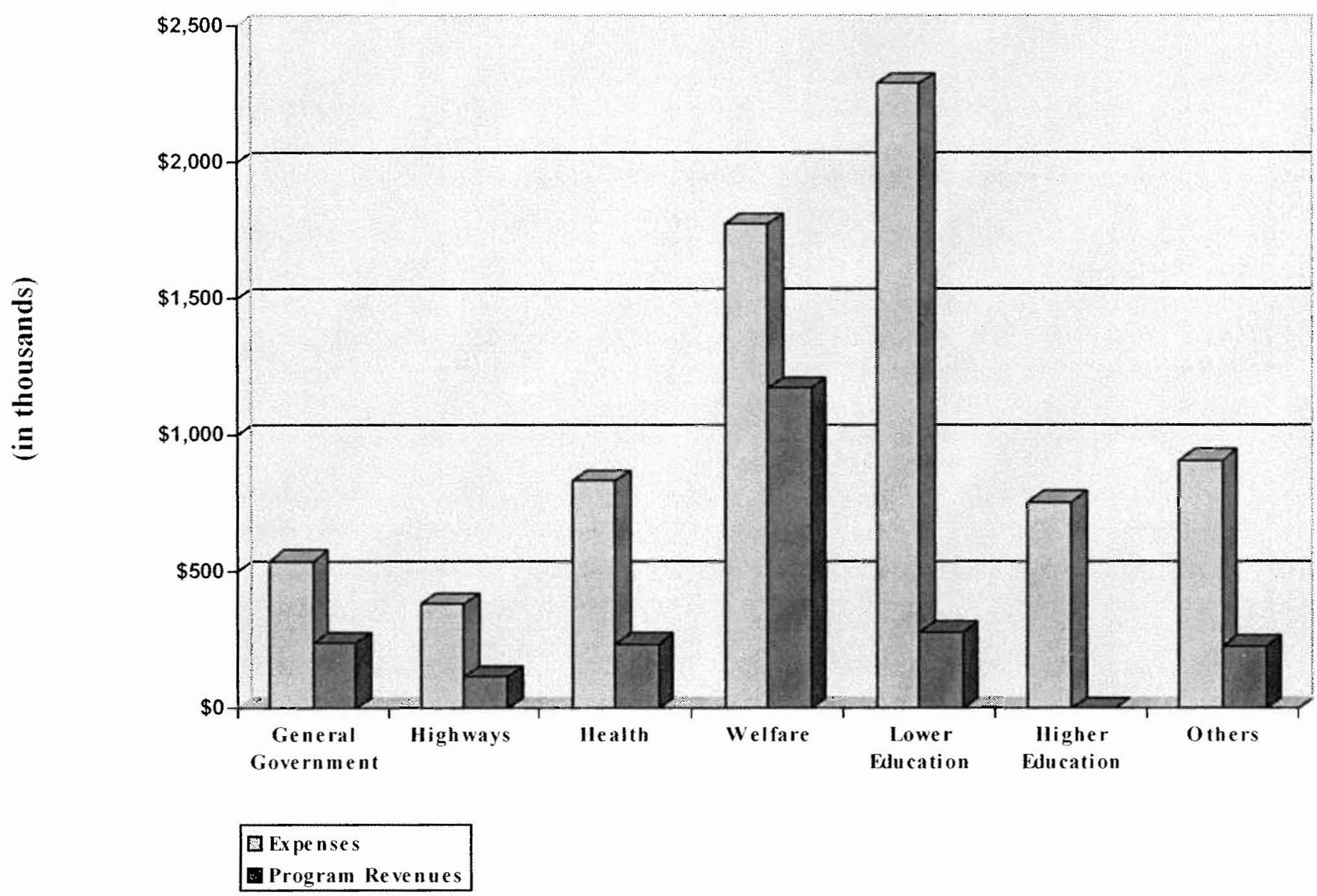
Higher education net expenses increased by $81.4 million or 12.0% due mainly to a $52.5 million increase in compensation and benefits because of scheduled pay rate increases and addition of new faculty and administrative employees, $15.6 million increase supplies and materials attributable to reclassified controlled property acquisitions, $3.4 million for repairs and maintenance in buildings and structures, and $5.5 million increase in depreciation expense.

Welfare net expenses decreased by $30.7 million, or 4.9%, from the previous fiscal year due to a decrease in expenses and an increase in intergovernmental program revenues.

Urban redevelopment and housing net expenses increased by $144.4 million from the previous fiscal year due to a decrease of $203.9 million in capital grants.

A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:

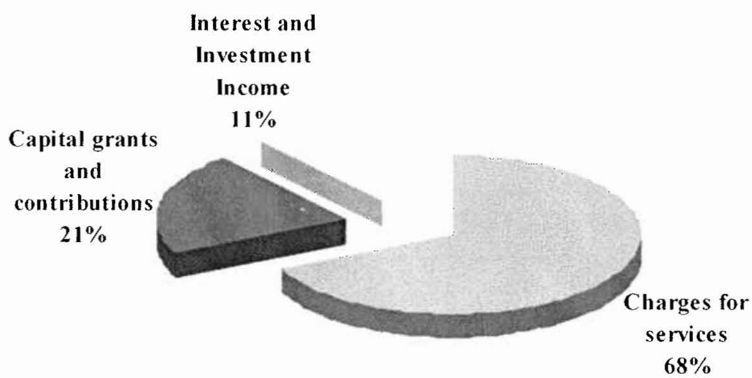
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2007



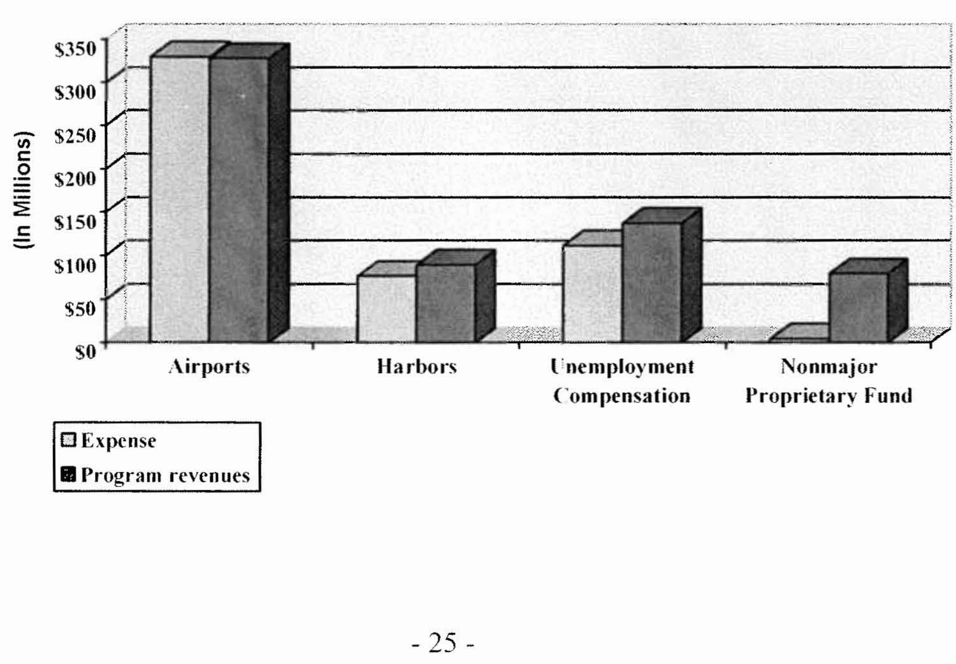
Business-Type Activities

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

Program Revenues by Source – Business-Type Activities
Fiscal Year Ended June 30, 2007



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2007



Business-type activities increased the State's net assets by $195.2 million in fiscal 2007, compared to an increase of $178.6 million in fiscal 2006. Key elements of this increase are as follows:

- Airport's net assets increased $34.1 compared to an increase of $74.6 million in the prior fiscal year. Federal grants increased by $12.2 million; however, capital contributions decreased $21.9 million and operating expenses increased $41.4 million, primarily attributed to higher repair and maintenance expenses.

- Harbor's net assets increased $25.0 million in fiscal 2007 compared to an increase of $28.1 million in fiscal 2006. This change was primarily due to higher operating expenses.

- The Unemployment Compensation Fund's net assets increased $50.9 million compared to an increase of $75.4 million in the prior fiscal year. The change was primarily due to a decrease in unemployment tax revenues of $43.1 million and an increase in unemployment benefits paid of $6.6 million.

- Nonmajor Proprietary Fund's net assets increased $85.2 million in fiscal 2007 compared to an increase of $.5 million in fiscal 2006. This large increase was attributed to activities of the Water Pollution Control Fund and the Drinking Water Treatment Loan Fund being presented within the Proprietary Funds beginning in fiscal 2007. These funds were previously presented within the Governmental Funds

Key elements of the State's business-type activities for the fiscal years ended June 30, 2007 and 2006 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues									
	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Airports	$ 256,843	$ 251,678	$ 71,363	$ 81,023	$ 328,206	$ 332,701	$ 329,942	$ 292,086	$ (1,736)	$ 40,615
Harbors	85,663	83,217	4,372	122	90,035	83,339	76,830	61,408	13,205	21,931
Unemployment compensation	138,070	181,146	—	—	138,070	181,146	112,411	105,786	25,659	75,360
Nonmajor proprietary funds	7,987	3,133	72,862	—	80,849	3,133	4,871	2,587	75,978	546
Total	$ 488,563	$ 519,174	$ 148,597	$ 81,145	$ 637,160	$ 600,319	$ 524,054	$ 461,867	$ 113,106	$ 138,452

Financial Analysis of the State's Individual Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the State's Governmental Funds reported combined ending fund balances of $2.4 billion, a decrease of $223.1 million from the prior fiscal year (as restated). Approximately $326.4 million, or 13.7%, of this total amount constitutes unreserved fund balance, which is available for spending at the State's discretion in the coming fiscal year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use ($1.6 billion), (2) for notes and loan receivable, advances, and investments ($68.6 million), (3) for federal aid highway projects encumbrances ($294.1 million), or (4) for a variety of other restricted purposes ($50.3 million).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was $881.3 million, a decrease of $132.7 million, or 13.1%, from the prior fiscal year, and the reserved fund balance was $414.9 million, an increase of $165.3 million, or 66.2%, over the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 19.8% of total General Fund expenditures, a decrease of 5.6% from the prior fiscal year, while total fund balance represents 29.1% of that same amount, a decrease of 2.6% from the prior fiscal year.

The fund balance of the State's General Fund increased by $32.6 million during the current fiscal year, which was due primarily to an increase in tax revenues. The fund balance of the State's Capital Projects Fund decreased by $118.7 million during the current fiscal year. Because of adequate cash reserves, the State issued the same amount of general obligation bonds as the previous fiscal year, which was the primary reason for the decrease in fund balance. The fund balance of the Med-Quest Special Fund, presented for the first time as a major governmental fund this fiscal year, increase $12.7 million. The fund balance of the State's other nonmajor Governmental Funds decreased by $149.7 million during the current fiscal year. The decrease was primarily due to decreases in transient accommodations tax revenues and intergovernmental revenues, and increases in expenditures for health programs and lower education.

Proprietary Funds

The State's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net assets of $34.1 million, Harbors had an increase in net assets of $25.0 million, the Unemployment Compensation Fund had an increase in net assets of $50.9 million, and the Nonmajor Proprietary Funds had an increase in net assets of $85.2 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

General Fund Budgetary Highlights

The General Fund revenues were $19.1 million, or 0.4%, less than the final budget. The decrease was primarily attributed to lower corporate and individual net income taxes of $126.9 million and higher general excise taxes, charges for current services, fines, forfeitures and penalties, and other revenues of $30.1 million, $21.8 million, $20.2 million and $26.1 million, respectively

The General Fund expenditure budget increased by $357.4 million from the original to the final budget. Most of the increase is due to the original budget consisting only of the appropriations contained in the general appropriation acts of the executive and judicial branches. Amounts that were not part of this original budget include: $206.0 million in employees' salary adjustments, $33.9 million for the State Legislature, $26.9 million for various health programs, including adult mental health, early intervention, and developmental disability, $23.5 million for housing programs, $10.8 million for energy self-sufficiency, $8.9 million in grants, and $8.1 million for lower education programs.

The difference between the final budget and actual expenditures on a budgetary basis was $177.9 million. The positive variance in general government is primarily attributed to $15.5 million of appropriations made to the State Legislature that can be carried over to the next fiscal year and $17.0 million appropriated for employees' salary adjustments that lapsed. The positive variance in general government was also due to a reduction in health benefit premiums of approximately $28.4 million because of lower rates for retirees; $13.7 million in general assistance funding not required because the anticipated increase in caseload did not materialize which contributed to the positive variance in welfare. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $42.6 million of unencumbered appropriations into the next fiscal year. By law, the Department of Education is allowed to carry over up to 5% of its unencumbered appropriations.

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to $10.5 billion (net of accumulated depreciation of $7.1 billion), a decrease of $267.9 million from fiscal 2006. The decrease is due to capital assets (net of accumulated depreciation) for the Hawaii Community Development Authority and the Hawaii Tourism Authority of $181.4 million and $272.7 million, respectively, which are being reflected as capital assets of Component Units in fiscal 2007. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2007, included the following:

- $10.0 million for Aloha Stadium structural repairs – first of four years
- $9.1 million for repair, alterations, and improvements for correctional facilities throughout the State
- $20.0 million for a new Maui adult detention facility
- $8.7 million for construction of a multi-lane highway in Kapolei, Oahu
- $143.3 million for various capital improvement projects for public school facilities throughout the State

Additional information on the State's capital assets can be found in Note 4 of the notes to basic financial statements.

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $5.3 billion. Of this amount, $4.1 billion comprises debt backed by the full faith and credit of the State and $1.2 billion (i.e., revenue bonds) is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt

June 30, 2007 and 2006

(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
General obligation bonds	$ 4,079,714	$ 4,322,964	$ 37	$ 137	$ 4,079,751	$ 4,323,101
Revenue bonds	283,310	306,255	939,349	883,823	1,222,659	1,190,078
Total	$ 4,363,024	$ 4,629,219	$ 939,386	$ 883,960	$ 5,302,410	$ 5,513,179

The State's total long-term debt decreased by $210.8 million, or 3.8%, during the current fiscal year. The key factor in this decrease was the reporting of $286.2 million of general obligation bonds payable of the Hawaii Tourism Authority as a discretely presented Component Unit in fiscal 2007. The State issued $350 million of general obligation bonds for financing the Hawaiian Home Lands Trust settlement and public improvement projects.

As of June 30, 2007, the State's general obligation bonds have been rated by Moody's Investors Service (Aaa), by Standard & Poor's Corporation (AAA), and by Fitch Ratings (AAA) based upon the bonds being insured by AMBAC, FGIC, FSA, and MBIA (Note: As of April 11, 2008, the ratings for FGIC were revised to Baa3, BB, and BBB by Moody's Investors Service, Standard and Poor's Corporation, and Fitch Ratings, respectively. The ratings for AMBAC and MBIA were also revised to AA by Fitch Ratings.) The State's underlying bond ratings by Moody's Investors Service, Standard & Poor's Corporation, and Fitch Ratings, are "Aa2", "AA", and "AA", respectively.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2007 was $343.4 million.

Additional information on the State's long-term debt can be found in notes 5, 6, and 7 of the notes to basic financial statements.

Other Post-Employment Benefits (OPEB)

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) beginning in fiscal 2007, adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB 43).* The EUTF, an agent multiple-employer defined benefit plan, reports retiree health care benefits in the Fiduciary Funds financial statements in accordance with GASB 43 and benefits for active employees in Proprietary Funds in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.*

The provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* will be implemented by the State for fiscal 2008. This new accounting standard will require the State to measure and disclose its liability for OPEB and the status of its efforts to fund that liability. Initial valuation reports by an independent actuarial firm for the State's liability were released in April 2007 for the EUTF and the Hawaii Voluntary Employee's Beneficiary Association Trust (VEBA).

According to the reports, the combined actuarially determined OPEB liability for the EUTF and VEBA, assuming the State continues to fund OPEB costs on a pay-as-you-go basis, was $8.2 billion as of July 1, 2006. The State has begun looking into alternative strategies that could be implemented to manage the high cost of providing retiree health benefits, but until this analysis is completed, the State expects to continue to fund OPEB costs on a pay-as-you-go basis.

Restatements

Adjustments were made to the beginning net assets of the government-wide financials statements and the beginning fund balances of the Governmental Funds financial statements because of the adoption of GASB Statement No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, and various reclassifications and misstatements. The restated balances have not been used for comparative purposes.

Economic Factors and Next Year's Budget

Unemployment is at higher levels with the statewide seasonally adjusted unemployment rate being 2.7% for the month of October 2007. One year ago, the State's seasonally adjusted unemployment rate stood at 2.1%, while the seasonally adjusted national unemployment rate was 4.4%.

Cumulative tax collections for the first five months of fiscal 2008 exceeded $2.2 billion, or $130.7 million more than the corresponding period last year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 3.5% in the same period.

The Council on Revenues in January 2008, estimated that the General Fund growth rate would be 4.9% in fiscal 2008 and 4.1% for fiscal 2009. Actual General Fund tax collections rose by 3.2% in the first five months of fiscal 2008 over the corresponding 2007 period. Higher general excise and use tax collections were the primary factors underlying this strong performance. A large part of this increase is attributable to the Honolulu County Surcharge which was not in effect until January 1, 2007. In November 2007, the Council on Revenues forecast the State's growth at 5.9% in 2008 total personal income.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the State can be found at the State's website, http://www.hawaii.gov.

BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
CASH AND CASH EQUIVALENTS (Note 3)	$ 562,332	$1,444,082	$ 2,006,414	$ 353,359
RECEIVABLES:				
Taxes	388,100	32,203	420,303	-
Accounts and accrued interest — net	20,112	31,933	52,045	179,897
Notes, loans, mortgages, and contributions — net (Note 10)	70,207	-	70,207	122,318
Federal government	109,938	1,897	111,835	10,978
Other — net (Note 12)	44,964	6,683	51,647	22,287
Total receivables	633,321	72,716	706,037	335,480
INTERNAL BALANCES (Note 8)	36,654	(36,654)	-	-
DUE FROM COMPONENT UNITS	33,830	-	33,830	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	257,312
INVESTMENTS (Note 3)	1,964,520	-	1,964,520	778,732
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	20,849
Materials and supplies	-	481	481	23,295
Total inventories	-	481	481	44,144
NET INVESTMENT IN FINANCING LEASE	-	-	-	15,579
RESTRICTED ASSETS (Notes 3, 6, and 10)	-	457,738	457,738	341,143
OTHER ASSETS:				
Prepaid expenses	5,896	9,349	15,245	13,247
Bond issue and deferred costs — net	85,901	6,252	92,153	2,156
Promissory note receivable (Note 10)	-	233,293	233,293	-
Other	24,501	-	24,501	22,333
Total other assets	116,298	248,894	365,192	37,736
CAPITAL ASSETS (Notes 4, 5, 6, 10, and 14):				
Land and land improvements	2,014,376	575,191	2,589,567	407,977
Infrastructure	7,923,678	-	7,923,678	195,195
Construction in progress	733,327	205,223	938,550	254,992
Buildings, improvements, and equipment	3,265,330	2,892,442	6,157,772	2,851,734
Accumulated depreciation	(5,554,190)	(1,527,597)	(7,081,787)	(1,469,762)
Total capital assets — net	8,382,521	2,145,259	10,527,780	2,240,136
TOTAL	$11,729,476	$4,332,516	$16,061,992	$4,403,621

(Continued)

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

	Primary Government			
LIABILITIES	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
LIABILITIES:				
Vouchers and contracts payable	$ 359,682	$ 39,932	$ 399,614	$ 126,798
Other accrued liabilities	222,225	49,278	271,503	136,473
Prepaid airport use charge fund (Note 10)	-	1,534	1,534	-
Due to Component Units	257,312	-	257,312	-
Due to Primary Government	-	-	-	33,830
Due to federal government	-	-	-	18
Deferred revenue	-	3,611	3,611	-
Estimated future costs of land sold	-	-	-	29,880
Unamortized bond premium (Note 5)	229,082	-	229,082	-
Premiums payable	-	44,880	44,880	-
Other	114,152	-	114,152	25,215
Long-term liabilities:				
Due within one year:				
Payable from restricted assets:				
Revenue bonds payable — net (Notes 6, 7, and 14)	-	44,978	44,978	-
General obligation bonds payable (Notes 5 and 7)	312,835	9	312,844	10,982
Notes, mortgages, and installment contracts payable	-	-	-	27,415
Accrued vacation and retirement benefits payable (Note 7)	66,329	3,171	69,500	10,785
Revenue bonds payable — net (Notes 6, 7, and 14)	14,885	-	14,885	8,968
Reserve for losses and loss adjustment costs (Notes 7 and 13)	57,297	1,286	58,583	19,020
Capital lease obligations (Notes 7 and 10)	3,610	-	3,610	7,180
Deferred commitment fees	-	-	-	473
Due in more than one year:				
General obligation bonds payable (Notes 5 and 7)	3,766,879	28	3,766,907	279,816
Notes, mortgages, and installment contracts payable	-	-	-	17,201
Accrued vacation and retirement benefits payable (Note 7)	117,539	6,864	124,403	55,826
Revenue bonds payable — net (Notes 6, 7, and 14)	268,425	894,371	1,162,796	618,719
Reserve for losses and loss adjustment costs (Notes 7 and 13)	118,212	3,372	121,584	7,369
Capital lease obligations (Notes 7 and 10)	75,480	-	75,480	48,911
Premiums on bonds payable	-	-	-	1,913
Other	940	953	1,893	63,293
TOTAL LIABILITIES	5,984,884	1,094,267	7,079,151	1,530,085
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	3,597,174	1,278,608	4,875,782	1,608,759
RESTRICTED FOR:				
Capital maintenance projects	144,438	-	144,438	-
Health and welfare	106,817	-	106,817	-
Natural resources	109,909	-	109,909	-
Hawaiian programs	35,011	-	35,011	-
Budget stabilization	61,451	-	61,451	-
Other purposes	89,676	-	89,676	-
Bond requirements and other	21,704	655,055	676,759	950,012
UNRESTRICTED	1,578,412	1,304,586	2,882,998	314,765
TOTAL NET ASSETS	$ 5,744,592	$ 3,238,249	$ 8,982,841	$ 2,873,536

See accompanying notes to basic financial statements.

(Concluded)

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	$ 541,889	$ 168,877	$ 72,506	$ -	$ (300,506)	$ -	$ (300,506)	
Public safety	378,409	28,780	50,068	-	(299,561)	-	(299,561)	
Highways	385,267	5,259	37,377	75,697	(266,934)	-	(266,934)	
Conservation of natural resources	68,745	26,331	27,231	-	(15,183)	-	(15,183)	
Health	833,669	98,681	137,156	-	(597,832)	-	(597,832)	
Welfare	1,773,505	1,031	1,171,583	-	(600,891)	-	(600,891)	
Lower education	2,288,641	35,327	243,493	-	(2,009,821)	-	(2,009,821)	
Higher education	759,777	-	-	-	(759,777)	-	(759,777)	
Other education	21,127	36	366	-	(20,725)	-	(20,725)	
Culture and recreation	92,444	8,000	2,184	-	(82,260)	-	(82,260)	
Urban redevelopment and housing	73,991	488	65,672	-	(7,831)	-	(7,831)	
Economic development and assistance	148,164	5,690	13,250	-	(129,224)	-	(129,224)	
Interest expense	118,708	-	-	-	(118,708)	-	(118,708)	
Total governmental activities	7,484,336	378,500	1,820,886	75,697	(5,209,253)	-	(5,209,253)	
Business-Type Activities:								
Airports	329,942	256,844	-	71,363	-	(1,735)	(1,735)	
Harbors	76,831	85,663	-	4,372	-	13,204	13,204	
Unemployment compensation	112,411	138,070	-	-	-	25,659	25,659	
Nonmajor proprietary funds	4,871	7,987	-	72,862	-	75,978	75,978	
Total business-type activities	524,055	488,564	-	148,597	-	113,106	113,106	
TOTAL PRIMARY GOVERNMENT	8,008,391	867,064	1,820,886	224,294	(5,209,253)	113,106	(5,096,147)	
COMPONENT UNITS:								
University of Hawaii	1,184,094	249,585	373,237	-				(561,272)
Hawaii Housing Finance and Development Corporation	54,250	60,160	23,107	-				29,017
Hawaii Public Housing Authority	112,003	22,993	49,164	15,082				(24,764)
Hawaii Health Systems Corporation	438,746	367,402	369	38,715				(32,260)
Hawaii Tourism Authority	103,068	10,569	-	-				(92,499)
Hawaii Community Development Authority	10,508	7,641	-	-				(2,867)
Hawaii Hurricane Relief Fund	203	-	-	-				(203)
TOTAL COMPONENT UNITS	1,902,872	718,350	445,877	53,797				(684,848)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,659,339	-	2,659,339	-
Net income tax — corporations and individuals					1,620,452	-	1,620,452	-
Public service companies tax					124,017	-	124,017	-
Transient accommodations tax					7,382	-	7,382	-
Tobacco and liquor taxes					131,813	-	131,813	-
Liquid fuel tax					87,179	-	87,179	-
Tax on premiums of insurance companies					96,385	-	96,385	-
Vehicle weight and registration tax					59,422	-	59,422	-
Rental motor/tour vehicle surcharge tax					49,479	-	49,479	-
Franchise tax					19,012	-	19,012	-
Public service companies tax					27,523	-	27,523	-
Interest and investment income					102,295	82,046	184,341	60,735
Payments from the State — net					-	-		841,670
Other					-	-	-	74,051
Total general revenues					4,984,298	82,046	5,066,344	976,456
CHANGE IN NET ASSETS					(224,955)	195,152	(29,803)	291,608
NET ASSETS — Beginning of year — as previously reported					6,262,975	2,640,090	8,903,065	2,305,552
ADJUSTMENTS (Note 15)					(293,428)	403,007	109,579	276,376
NET ASSETS — Beginning of year — as restated					5,969,547	3,043,097	9,012,644	2,581,928
NET ASSETS — End of year					$ 5,744,592	$ 3,238,249	$ 8,982,841	$ 2,873,536

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS (Note 3)	$ 171,720	$ 66,193	$ 7,639	$ 316,780	$ 562,332
RECEIVABLES:					
Taxes	388,100	-	-	-	388,100
Accrued interest	9,446	-	-	7,442	16,888
Notes and loans — net	4,175	-	-	66,032	70,207
Federal government	-	-	109,938	-	109,938
Other	68	-	-	17,796	17,864
DUE FROM OTHER FUNDS (Note 8)	154,083	-	-	19,542	173,625
DUE FROM PROPRIETARY FUNDS (Note 8)	-	37,047	-	-	37,047
DUE FROM COMPONENT UNITS	33,830	-	-	-	33,830
INVESTMENTS (Note 3)	832,645	319,833	10,000	802,042	1,964,520
OTHER ASSETS	-	-	-	24,501	24,501
TOTAL	$ 1,594,067	$ 423,073	$ 127,577	$1,254,135	$ 3,398,852
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 76,367	$ 42,996	$ 110,167	$ 130,152	$ 359,682
Other accrued liabilities	153,408	52,941	-	11,903	218,252
Due to other funds (Note 8)	42	109,400	-	64,183	173,625
Due to Component Units	41,558	193,326	-	-	234,884
Due to Proprietary Fund (Note 8)	-	-	-	393	393
Deferred Revenue	26,482	-	-	-	26,482
Payable from restricted assets — matured bonds and interest payable	-	-	-	940	940
Total liabilities	297,857	398,663	110,167	207,571	1,014,258
FUND BALANCES:					
Reserved for:					
Continuing appropriations	410,714	842,232	4,754	387,539	1,645,239
Receivables and advances	4,185	-	-	64,387	68,572
Federal aid highway projects encumbrances	-	294,102	-	-	294,102
Bond redemption and other	-	-	-	50,331	50,331
Unreserved for major funds:					
Designated for future expenditures	224,260	-	-	-	224,260
Undesignated	657,051	(1,111,924)	-	-	(454,873)
Unreserved for nonmajor Special Revenue Funds:					
Designated for future expenditures	-	-	-	83,286	83,286
Undesignated	-	-	12,656	461,021	473,677
Total fund balances	1,296,210	24,410	17,410	1,046,564	2,384,594
TOTAL	$ 1,594,067	$ 423,073	$ 127,577	$1,254,135	$ 3,398,852

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 2,384,594
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land and land improvements	2,014,376
Infrastructure	7,923,678
Construction in progress	733,327
Buildings, improvements, and equipment	3,265,330
Accumulated depreciation	(5,554,190)
	8,382,521
Accrued interest and other payables are not recognized in Governmental Funds.	(343,233)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in Governmental Funds, such as accrued interest and settlement receivables	148,601
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds payable	(4,079,714)
Accrued vacation payable	(183,868)
Revenue bonds payable	(283,310)
Reserve for losses and loss adjustment costs	(175,509)
Land transfer agreement with the HHFDC	(26,400)
Capital lease obligations	(79,090)
	(4,827,891)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 5,744,592

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$2,632,485	$ -	$ -	$ -	$2,632,485
Net income tax — corporations and individuals	1,618,570	-	-	-	1,618,570
Public service companies tax	124,017	-	-	-	124,017
Transient accommodations tax	6,382	-	-	1,000	7,382
Tobacco and liquor taxes	130,281	-	-	1,532	131,813
Liquid fuel tax	-	-	-	87,179	87,179
Tax on premiums of insurance companies	94,377	-	-	2,008	96,385
Vehicle weight and registration tax	-	-	-	59,422	59,422
Rental motor/tour vehicle surcharge tax	-	-	-	49,479	49,479
Franchise tax	-	-	-	2,000	2,000
Other	24,923	-	-	19,612	44,535
Total taxes	4,631,035	-	-	222,232	4,853,267
Interest and investment income	71,748	-	264	50,594	122,606
Charges for current services	87,329	-	134	230,772	318,235
Intergovernmental	15,293	-	748,506	964,096	1,727,895
Rentals	564	-	-	21,075	21,639
Fines, forfeitures, and penalties	20,712	-	-	7,776	28,488
Licenses and fees	1,245	-	-	29,592	30,837
Revenues from private sources	1,831	-	-	37,570	39,401
Other	23,255	-	13,900	90,289	127,444
Total revenues	4,853,012	-	762,804	1,653,996	7,269,812
EXPENDITURES:					
Current:					
General government	351,674	68,445	-	38,117	458,236
Public safety	256,072	8,809	-	111,151	376,032
Highways	-	142,634	-	195,228	337,862
Conservation of natural resources	38,445	14,111	-	55,022	107,578
Health	558,748	25,832	-	247,753	832,333
Welfare	702,526	795	745,078	322,308	1,770,707
Lower education	1,776,222	164,471	-	364,587	2,305,280
Higher education	660,336	99,441	-	-	759,777
Other education	5,651	838	-	13,633	20,122
Culture and recreation	42,259	16,013	-	34,302	92,574
Urban redevelopment and housing	28,060	980	-	141,574	170,614
Economic development and assistance	35,586	20,107	-	91,453	147,146
Other	3,416	-	-	3,832	7,248
Debt service	-	-	-	502,733	502,733
Total expenditures	4,458,995	562,476	745,078	2,121,693	7,888,242
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	394,017	(562,476)	17,726	(467,697)	(618,430)
OTHER FINANCING SOURCES (USES):					
Issuance of general obligation and refunding general obligation bonds — par (Notes 5 and 7)	-	350,000	-	-	350,000
Issuance of general obligation and refunding general obligation bonds — premium (Notes 5 and 7)	20,803	-	-	-	20,803
Issuance of certificates of participation (Note 10)	-	-	-	24,500	24,500
Transfers in (Note 9)	50,558	125,025	5,227	615,385	796,195
Transfers out (Note 9)	(432,737)	(31,277)	(10,298)	(321,883)	(796,195)
Total other financing sources (uses)	(361,376)	443,748	(5,071)	318,002	395,303
NET CHANGE IN FUND BALANCES	32,641	(118,728)	12,655	(149,695)	(223,127)
FUND BALANCES — Beginning of year — as previously reported	1,263,569	194,878	4,755	1,411,061	2,874,263
ADJUSTMENTS (Note 15)	-	(51,740)	-	(214,802)	(266,542)
FUND BALANCES — Beginning of year — as restated	1,263,569	143,138	4,755	1,196,259	2,607,721
FUND BALANCES — End of year	$1,296,210	$ 24,410	$ 17,410	$1,046,564	$2,384,594

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ (223,127)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in Governmental Funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay — net of disposals	433,070
Depreciation expense (Note 4)	(337,010)
Excess of capital outlay over depreciation expense	96,060
Bond proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bonds issued.	(395,303)
Repayment of long-term debt is reported as an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Bond principal retirement	384,025
Capital lease payments	3,445
Total long-term debt repayment	387,470
Revenue timing differences result in greater revenue in the government-wide financial statements.	(10,418)
Bond issue and deferred costs reflected as other financing uses in Governmental Funds and reported in the statement of net assets — net of amortization.	15,017
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds:	
Change in accrued vacation payable	1,155
Change in accrued liability for land transfer agreement with the HHFDC	2,200
Change in reserve for losses and loss adjustment costs	(98,009)
	(94,654)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (224,955)

See accompanying notes to basic financial statements.

STATE OF HAWAII

GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,382,694	$ 2,527,087	$ 2,557,644	$ 30,557
Net income tax:				
Corporations	98,041	134,363	81,834	(52,529)
Individuals	1,488,704	1,634,464	1,560,065	(74,399)
Inheritance and estate tax	-	-	162	162
Liquor permits and tax	45,652	47,323	46,034	(1,289)
Public service companies tax	136,903	128,732	124,017	(4,715)
Tobacco tax	93,717	88,878	84,247	(4,631)
Tax on premiums of insurance companies	83,000	88,000	94,377	6,377
Franchise tax (banks and other financial institutions)	19,760	17,933	17,012	(921)
Transient accommodations tax	17,808	17,808	17,076	(732)
Other taxes, primarily conveyances tax	15,243	8,434	7,749	(685)
Total taxes	4,381,522	4,693,022	4,590,217	(102,805)
Non-taxes:				
Interest and investment income	29,572	53,247	62,761	9,514
Charges for current services	149,062	152,478	174,251	21,773
Intergovernmental	5,047	5,382	15,010	9,628
Rentals	6,095	2,017	564	(1,453)
Fines, forfeitures, and penalties	545	534	20,712	20,178
Licenses and fees	1,006	1,002	1,245	243
Revenues from private sources	2,000	2,800	1,831	(969)
Debt service requirements	49,229	49,205	47,850	(1,355)
Other	141,712	163,495	189,617	26,122
Total non-taxes	384,268	430,160	513,841	83,681
Total revenues	4,765,790	5,123,182	5,104,058	(19,124)
EXPENDITURES:				
General government	669,527	733,696	655,227	78,469
Public safety	217,855	248,139	239,111	9,028
Conservation of natural resources	31,821	39,970	38,948	1,022
Health	398,056	440,901	438,859	2,042
Hospitals	34,154	48,740	48,738	2
Welfare	697,816	714,773	693,962	20,811
Lower education	1,917,528	2,004,595	1,957,618	46,977
Higher education	614,890	623,349	623,240	109
Other education	5,175	5,254	5,017	237
Culture and recreation	36,240	45,227	41,051	4,176
Urban redevelopment and housing	1,068	1,151	965	186
Economic development and assistance	31,918	47,608	46,876	732
Housing	8,409	31,916	26,771	5,145
Social security and pension contributions	207,082	239,435	230,634	8,801
Other	-	4,218	4,037	181
Total expenditures	4,871,539	5,228,972	5,051,054	177,918
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(105,749)	(105,790)	53,004	158,794
OTHER FINANCING SOURCES — Transfers in	14,343	32,741	38,006	5,265
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ (91,406)	$ (73,049)	$ 91,010	$ 164,059

See accompanying notes to basic financial statements.

STATE OF HAWAII

MED-QUEST SPECIAL REVENUE FUND
STATEMENT OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
Liquid fuel tax:				
Highways	$ -	$ -	$ -	$ -
Boating	-	-	-	-
Airports	-	-	-	-
Vehicle registration fee tax	-	-	-	-
State vehicle weight tax	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-
Employment and training fund assessment	-	-	-	-
General excise tax	-	-	-	-
Tobacco tax	-	-	-	-
Conveyances tax	-	-	-	-
Environmental response tax	-	-	-	-
Hospital and nursing facility tax	-	-	-	-
Transient accommodations tax	-	-	-	-
Franchise tax	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-
Total taxes	-	-	-	-
Non-taxes:				
Interest and investment income	-	-	264	264
Charges for current services	-	-	134	134
Intergovernmental	602,643	616,555	638,568	22,013
Rentals	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	21,000	32,000	13,900	(18,100)
Total non-taxes	623,643	648,555	652,866	4,311
Total revenues	623,643	648,555	652,866	4,311
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	617,066	652,743	641,043	11,700
Lower education	-	-	-	-
Higher education	-	-	-	-
Other education	-	-	-	-
Culture and recreation	-	-	-	-
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	-	-	-	-
Airports	-	-	-	-
Water transportation and terminals	-	-	-	-
Housing	-	-	-	-
Other	-	-	-	-
Total expenditures	617,066	652,743	641,043	11,700
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 6,577	$ (4,188)	$ 11,823	$ 16,011

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

ASSETS	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CURRENT ASSETS:					
Cash and cash equivalents (Note 3)	$ 528,557	$ 134,228	$ 552,313	$228,984	$ 1,444,082
Restricted assets — cash and short-term investments (Notes 3 and 6)	199,417	142,627	-	-	342,044
Receivables:					
Taxes	-	-	32,203	-	32,203
Accounts and accrued interest (net of allowance for doubtful accounts of $6,669)	17,037	11,622	-	3,274	31,933
Promissory note receivable (net of allowance for doubtful accounts of $7,808) (Note 10)	372	9	-	19,325	19,706
Federal government	1,897	-	-	-	1,897
Restricted assets — passenger facility charges	3,300	-	-	-	3,300
Other	442	160	-	1,364	1,966
Premium receivable	-	-	-	4,717	4,717
Due from Special Revenue Fund	-	-	-	393	393
Restricted assets — investments — repurchase agreements and certificates of deposit (Notes 3 and 6)	75,252	-	-	-	75,252
Inventory of materials and supplies	245	236	-	-	481
Prepaid expenses and other assets	-	24	-	9,325	9,349
Total current assets	826,519	288,906	584,516	267,382	1,967,323
NONCURRENT ASSETS:					
Capital assets (Notes 4, 6, 10, and 14):					
Land and land improvements	334,920	240,271	-	-	575,191
Construction in progress	168,923	36,300	-	-	205,223
Buildings and improvements	2,136,487	512,885	-	-	2,649,372
Equipment	192,691	47,061	-	3,318	243,070
	2,833,021	836,517	-	3,318	3,672,856
Less accumulated depreciation	(1,347,246)	(177,474)	-	(2,877)	(1,527,597)
Net capital assets	1,485,775	659,043	-	441	2,145,259
Bond issue costs — net	3,347	2,905	-	-	6,252
Promissory note receivable (Note 10)	2,967	-	-	210,620	213,587
Restricted assets — net direct financing leases (Note 10)	37,142	-	-	-	37,142
Total noncurrent assets	1,529,231	661,948	-	211,061	2,402,240
TOTAL	$ 2,355,750	$ 950,854	$ 584,516	$478,443	$ 4,369,563

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

LIABILITIES	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Fund	Total Proprietary Funds
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 30,432	$ 7,605	$ 1,497	$ 398	$ 39,932
Payable from restricted assets — contracts payable, accrued interest, and other	26,821	17,756	-	-	44,577
Other accrued liabilities	4,621	-	-	80	4,701
Due to Capital Projects Fund (Note 8)	-	37,047	-	-	37,047
Prepaid airport use charge fund	1,534	-	-	-	1,534
Deferred revenue	3,611	-	-	-	3,611
General obligation bonds payable, current portion (Notes 5 and 7)	9	-	-	-	9
Reserve for losses and loss adjustment expenses	1,184	102	-	-	1,286
Accrued vacation, current portion (Note 7)	2,577	562	-	32	3,171
Payable from restricted assets — revenue bonds payable (Notes 6, 7, and 14)	33,290	11,688	-	-	44,978
Premiums payable	-	-	-	44,880	44,880
Total current liabilities	104,079	74,760	1,497	45,390	225,726
NONCURRENT LIABILITIES:					
General obligation bonds payable (Notes 5 and 7)	28	-	-	-	28
Accrued vacation (Note 7)	5,018	1,586	-	260	6,864
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding) (Notes 6, 7, and 14)	643,481	250,890	-	-	894,371
Reserve for losses and loss adjustment costs (Note 7)	3,016	356	-	-	3,372
Other	953	-	-	-	953
Total long-term liabilities	652,496	252,832	-	260	905,588
TOTAL LIABILITIES	756,575	327,592	1,497	45,650	1,131,314
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	881,703	396,464	-	441	1,278,608
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	237,470	10,897	-	406,688	655,055
UNRESTRICTED	480,002	215,901	583,019	25,664	1,304,586
TOTAL NET ASSETS	$ 1,599,175	$ 623,262	$ 583,019	$ 432,793	$ 3,238,249

See accompanying notes to basic financial statements.

(Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES (Note 10):					
Concession fees	$ 120,690	$ -	$ -	$ -	$ 120,690
Unemployment compensation tax	-	-	138,070	-	138,070
Aviation fuel tax	2,169	-	-	-	2,169
Airport use charges	38,049	-	-	-	38,049
Rentals	67,751	25,529	-	-	93,280
Services and others	618	58,076	-	-	58,694
Administrative fees	-	-	-	4,347	4,347
Other	4,157	2,058	-	3,640	9,855
Total operating revenues	233,434	85,663	138,070	7,987	465,154
OPERATING EXPENSES:					
Personnel services	107,349	13,003	-	759	121,111
Depreciation (Note 4)	82,631	14,817	-	285	97,733
Repairs and maintenance	50,881	8,471	-	353	59,705
Airports operations	36,251	-	-	-	36,251
Harbors operations	-	16,440	-	-	16,440
Fireboat operations	-	1,710	-	-	1,710
General administration	15,489	6,556	-	3,270	25,315
Unemployment compensation	-	-	112,411	-	112,411
Other	245	-	-	635	880
Total operating expenses	292,846	60,997	112,411	5,302	471,556
Operating income (loss)	(59,412)	24,666	25,659	2,685	(6,402)
NONOPERATING REVENUES (EXPENSES):					
Interest income	35,840	11,751	25,200	9,255	82,046
Interest expense	(36,614)	(13,002)	-	-	(49,616)
Federal grants	19,983	-	-	-	19,983
Loss on disposal of capital assets	(44)	(2,832)	-	-	(2,876)
Passenger facility charges	23,410	-	-	-	23,410
Other	(438)	-	-	431	(7)
Total nonoperating revenues (expenses)	42,137	(4,083)	25,200	9,686	72,940
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(17,275)	20,583	50,859	12,371	66,538
CAPITAL CONTRIBUTIONS	51,380	4,372	-	72,862	128,614
CHANGE IN NET ASSETS	34,105	24,955	50,859	85,233	195,152
NET ASSETS — Beginning of year — as previously reported	1,565,070	598,307	475,803	910	2,640,090
ADJUSTMENTS (Note 15)	-	-	56,357	346,650	403,007
NET ASSETS — Beginning of year — as restated	1,565,070	598,307	532,160	347,560	3,043,097
NET ASSETS — End of year	$1,599,175	$623,262	$583,019	$432,793	$3,238,249

See accompanying notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$230,466	$85,287	$ -	$ -	$ 315,753
Cash received from taxes	-	-	147,267	-	147,267
Cash received from employees	-	-	-	290,183	290,183
Cash paid to suppliers	(147,711)	(28,726)	-	(1,691)	(178,128)
Cash paid to employees	(60,559)	(12,940)	-	(2,188)	(75,687)
Cash paid for unemployment compensation	-	-	(112,805)	-	(112,805)
Cash paid for premiums	-	-	-	(271,781)	(271,781)
Cash paid for premium deposit for self-funded plans	-	-	-	(9,308)	(9,308)
Reserves returned by insurance carriers	-	-	-	148	148
Interest income from loans	-	-	-	3,618	3,618
Administrative loan fees	-	-	-	2,157	2,157
Principal repayments on loans	-	-	-	14,277	14,277
Disbursement of loan proceeds	-	-	-	(88,579)	(88,579)
Other cash receipts	-	-	-	(2)	(2)
Net cash provided by (used in) operating activities	22,196	43,621	34,462	(63,166)	37,113
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Net advances to other funds	-	-	-	(28)	(28)
State capital contributions	-	-	-	3,714	3,714
Proceeds from federal operating grants	21,439	-	-	70,714	92,153
Net cash provided by noncapital financing activities	21,439	-	-	74,400	95,839
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Cash received from bond issuance	-	97,427	-	-	97,427
Proceeds from debt payable to Department of Budget and Finance	-	28,530	-	-	28,530
Acquisition and construction of capital assets	(85,606)	(57,992)	-	(83)	(143,681)
Repayment of general obligation and revenue bonds principal	(30,574)	(11,395)	-	-	(41,969)
Interest paid on bonds	(38,714)	(11,972)	-	-	(50,686)
Proceeds from passenger facility charges program	23,288	-	-	-	23,288
Payments from passenger facility charges program	(14,109)	-	-	-	(14,109)
Proceeds from federal, state, and capital grants	50,037	306	-	-	50,343
Net cash provided by (used in) capital and related financing activities	(95,678)	44,904	-	(83)	(50,857)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	101,181	-	-	(28)	101,153
Proceeds from sales and maturities of investments	(101,181)	-	-	-	(101,181)
Interest from investments	32,700	9,303	30,848	8,812	81,663
Net cash provided by investing activities	32,700	9,303	30,848	8,784	81,635
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,343)	97,828	65,310	19,935	163,730
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	747,317	179,027	487,003	209,049	1,622,396
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	727,974	276,855	552,313	228,984	1,786,126

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ (59,412)	$ 24,666	$ 25,659	$ 2,685	$ (6,402)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	676	-	-	676
Depreciation	82,631	14,817	-	285	97,733
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	(847)	-	-	-	(847)
Other nonoperating income	-	-	-	1	1
Reserves provided by operating activites	-	-	-	329	329
Premium reserves held by insurance companies	-	-	-	13	13
Decrease (increase) in assets:					
Receivables	(1,609)	(549)	9,197	(74,651)	(67,612)
Inventory of materials and supplies	10	(5)	-	-	5
Deposits	-	-	-	(9,308)	(9,308)
Prepaid expenses	-	-	-	16	16
Increase (decrease) in liabilities:					
Vouchers and contracts payable	962	3,782	(394)	118	4,468
Other accrued liabilities	943	234	-	17,369	18,546
Prepaid airport use charge fund	(1,348)	-	-	-	(1,348)
Deferred revenue	866	-	-	-	866
Accrued interest on loans receivable	-	-	-	(23)	(23)
Net cash provided by (used in) operating activities	$ 22,196	$ 43,621	$ 34,462	$ (63,166)	$ 37,113
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	799	163	-	-	962
Principal payments relating to special facility revenue bonds	1,000	-	-	-	1,000
Interest payments relating to special facility revenue bonds	2,425	-	-	-	2,425
Acquisition of capital assets from the Hawaii Community Development Authority	-	4,437	-	-	4,437

See accompanying notes to basic financial statements.

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

	Employer - Union Trust Fund	Agency Funds	Total
ASSETS:			
Cash and cash equivalents (Note 3)	$ 39,097	$ 104,864	$ 143,961
Receivables:			
Accrued interest	384	9,762	10,146
Premium - trust	8,235	-	8,235
Medicare reimbursements - trust	29	-	29
Total receivables	8,648	9,762	18,410
Due from individuals, businesses, and counties	-	30,286	30,286
Investments (Note 3):			
Certificates of deposit	-	5,861	5,861
U.S. government securities	-	79,123	79,123
Repurchase agreements	-	12,699	12,699
Total investments	-	97,683	97,683
Deposits and other assets - trust	10,106	-	10,106
Capital assets - trust	126	-	126
Total assets	57,977	242,595	300,572
LIABILITIES AND NET ASSETS:			
Vouchers payable	158	53,329	53,487
Due to individuals, businesses, and counties	-	189,266	189,266
Retrospective premium payable - trust	16,882	-	16,882
Premium payable - trust	14,629	-	14,629
Compensated absences, accrued wages, and employee benefits payable - trust	109	-	109
Total liabilities	31,778	242,595	274,373
Net assets — held in trust	$ 26,199	$ -	$ 26,199

See accompanying notes to basic financial statements.

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Employer - Union Trust Fund
ADDITIONS:	
Interest and investment income	$ 1,638
Contributions - employer and plan member	242,980
Increase in premium reserves	341
Total additions	244,959
DEDUCTIONS:	
Benefits	241,361
Administrative expenses	2,339
Total deductions	243,700
CHANGE IN NET ASSETS	1,259
NET ASSETS — Beginning of year — as previously reported	181,771
ADJUSTMENTS (Note 15)	(181,771)
ADOPTION OF GASB 43 (Note 11)	24,940
NET ASSETS — Beginning of year — as restated	24,940
NET ASSETS — End of year	$ 26,199

See accompanying notes to basic financial statements.

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

ASSETS	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
CASH AND CASH EQUIVALENTS	$ 30,964	$ 180,091	$ 41,749	$ 26,324
RECEIVABLES:				
Accounts and accrued interest (net of allowance for doubtful accounts of $81,875)	103,705	5,193	1,315	66,922
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	43,632	78,260	426	-
Federal government	-	-	8,734	2,244
Other	-	5,839	682	-
DUE FROM PRIMARY GOVERNMENT (Note 8)	234,884	22,428	-	-
INVESTMENTS	571,698	6,388	-	-
INVENTORIES:				
Developments in progress and dwelling units	-	20,849	-	-
Materials and supplies	9,736	-	745	12,814
NET INVESTMENT IN FINANCING LEASE	-	15,579	-	-
PREPAID EXPENSES AND OTHER ASSETS	9,001	152	121	3,557
	1,003,620	334,779	53,772	111,861
RESTRICTED ASSETS:				
Cash and cash equivalents	6,851	318,715	-	4,309
Investments (Note 3)	-	40	-	-
Deposits, funded reserves, and other	-	576	8,027	-
Total restricted assets	6,851	319,331	8,027	4,309
CAPITAL ASSETS:				
Land and land improvements	87,643	20,274	25,342	6,920
Infrastructure	55,327	-	-	-
Construction in progress	146,623	837	38,318	42,388
Buildings, improvements, and equipment	1,540,306	144,375	528,668	409,541
Less accumulated depreciation	(755,869)	(78,188)	(283,499)	(205,692)
Total capital assets — net	1,074,030	87,298	308,829	253,157
OTHER ASSETS	22,333	2,156	-	-
TOTAL	$ 2,106,834	$ 743,564	$ 370,628	$ 369,327

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 17,732	$ 52,001	$ 4,498	$ 353,359
-	403	2,359	179,897
-	-	-	122,318
-	-	-	10,978
10,452	5,314	-	22,287
-	-	-	257,312
17,800	-	182,846	778,732
-	-	-	20,849
-	-	-	23,295
-	-	-	15,579
-	416	-	13,247
45,984	58,134	189,703	1,797,853
2,625	-	-	332,500
-	-	-	40
-	-	-	8,603
2,625	-	-	341,143
131,497	136,301	-	407,977
-	139,868	-	195,195
-	26,826	-	254,992
211,053	17,791	-	2,851,734
(75,595)	(70,919)	-	(1,469,762)
266,955	249,867	-	2,240,136
-	-	-	24,489
$ 315,564	$ 308,001	$ 189,703	$ 4,403,621

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 48,130	$ 2,687	$ 14,513	$ 59,068
Other accrued liabilities	115,296	16,232	4,735	-
Due to Primary Government (Note 8)	6,304	-	-	24,000
Due to federal government	-	-	18	-
Estimated future costs of land sold	-	29,880	-	-
General obligation bonds payable (Note 5)	1,717	-	-	-
Notes, mortgages, and installment contracts payable	26,501	75	-	839
Accrued vacation and retirement benefits payable	-	-	-	10,685
Revenue bonds payable (Note 14)	-	8,968	-	-
Reserve for losses and loss adjustment costs	-	-	-	19,020
Capital lease obligations	-	-	-	7,180
Deferred commitment fees	-	473	-	-
Other liabilities	-	4,702	2,382	1,982
Total current liabilities	197,948	63,017	21,648	122,774
NONCURRENT LIABILITIES:				
General obligation bonds payable (Note 5)	2,916	-	-	-
Notes, mortgages, and installment contracts payable	-	5,851	576	10,774
Accrued vacation and retirement benefits payable	34,995	-	-	20,579
Revenue bonds payable (Note 14)	263,045	355,674	-	-
Reserve for losses and loss adjustment costs	7,369	-	-	-
Premium on bonds payable	1,913	-	-	-
Capital lease obligations	13,820	-	-	35,091
Other liabilities	6,557	4,625	-	20,825
Total noncurrent liabilities	330,615	366,150	576	87,269
TOTAL	528,563	429,167	22,224	210,043
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	890,877	(18,821)	308,253	197,794
RESTRICTED	533,133	319,291	8,001	2,862
UNRESTRICTED (DEFICIT)	154,261	13,927	32,150	(41,372)
TOTAL	$ 1,578,271	$ 314,397	$ 348,404	$ 159,284

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 1,456	$ 944	$ -	$ 126,798
119	91	-	136,473
-	-	3,526	33,830
-	-	-	18
-	-	-	29,880
9,265	-	-	10,982
-	-	-	27,415
100	-	-	10,785
-	-	-	8,968
-	-	-	19,020
-	-	-	7,180
-	-	-	473
11,105	544	4,500	25,215
22,045	1,579	8,026	437,037
276,900	-	-	279,816
-	-	-	17,201
252	-	-	55,826
-	-	-	618,719
-	-	-	7,369
-	-	-	1,913
-	-	-	48,911
-	31,286	-	63,293
277,152	31,286	-	1,093,048
299,197	32,865	8,026	1,530,085
(19,211)	249,867	-	1,608,759
35,578	51,147	-	950,012
-	(25,878)	181,677	314,765
$ 16,367	$ 275,136	$ 181,677	$2,873,536

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$1,184,094	$ 54,250	$ 112,003	$ 438,746
PROGRAM REVENUES:				
Charges for services	249,585	60,160	22,993	367,402
Operating grants and contributions	373,237	23,107	49,164	369
Capital grants and contributions	-	-	15,082	38,715
Total program revenues	622,822	83,267	87,239	406,486
Net program revenues (expenses)	(561,272)	29,017	(24,764)	(32,260)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	46,549	-	-	878
Payments from (to) the State	654,725	2,410	36,709	48,740
Other	72,894	-	-	(834)
Net general revenues	774,168	2,410	36,709	48,784
Change in net assets	212,896	31,427	11,945	16,524
NET ASSETS — Beginning of year — as previously reported	1,365,375	617,234	-	142,760
ADJUSTMENTS (Note 15)	-	(334,264)	336,459	-
NET ASSETS — Beginning of year — as restated	1,365,375	282,970	336,459	142,760
NET ASSETS — End of year	$1,578,271	$ 314,397	$ 348,404	$ 159,284

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 103,068	$ 10,508	$ 203	$ 1,902,872
10,569	7,641	-	718,350
-	-	-	445,877
-	-	-	53,797
10,569	7,641	-	1,218,024
(92,499)	(2,867)	(203)	(684,848)
2,045	1,540	9,723	60,735
107,112	-	(8,026)	841,670
-	1,991	-	74,051
109,157	3,531	1,697	976,456
16,658	664	1,494	291,608
-	-	180,183	2,305,552
(291)	274,472	-	276,376
(291)	274,472	180,183	2,581,928
$ 16,367	$ 275,136	$ 181,677	$ 2,873,536

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the State of Hawaii (the State) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

Reporting Entity — The accompanying basic financial statements present the financial activity of the State (Primary Government) and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

Primary Government — The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Executive:
- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resources Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

Discretely Presented Component Units — The Component Units column in the basic financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the Governor of the State (Governor). The discretely presented Component Units are as follows:

University of Hawaii — The State's public institutions of higher education provide instruction and conduct research in, and disseminate knowledge of, agriculture, economics, history, languages, literature, mathematics, mechanical arts, natural sciences, philosophy, political and social sciences, physics, and such other branches of advanced learning as the Board of Regents of the University of Hawaii (UH) may prescribe and the federal government require.

Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH. The activities of the UH are under the general management of the Board of Regents consisting of 12 members who are appointed and may be removed by the Governor.

Hawaii Housing Finance and Development Corporation — Effective July 1, 2006, the Hawaii Housing Finance and Development Corporation (HHFDC) was established as a corporate body to be placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. Effective July 1, 2006, the HHFDC is the second agency created with the splitting of the Housing and Community Development Corporation of Hawaii (HCDCH) by Act 196, Session Laws of Hawaii (SLH) of 2005, as amended by Act 180, SLH of 2006. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six shall be public members appointed by the Governor:
  - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
    - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai.
    - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.

- The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
  - Two members to be appointed for four years
  - Two members to be appointed for three years and
  - Two members to be appointed for two years.

- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

Hawaii Public Housing Authority — The Hawaii Public Housing Authority (HPHA) was established as a corporate body to be placed within the Department of Human Services for administrative purposes. Effective July 1, 2006, Act 196, SLH of 2005, as amended by Act 180, SLH of 2006, split the HCDCH into two agencies, one of which was the HPHA. The HPHA is charged with managing federal and state public housing programs, including Section 8 and senior housing.

HRS Chapter 356D states that the HPHA shall be a public body and a body corporate and politic and be headed by a board of directors comprised of 11 members. The 11 members consist of the following:

- Nine public members appointed by the Governor (four appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai, and five appointed at large);
- The Director of Human Services, as an Ex Officio voting member; and
- The Representative of the Governor's Office, as an Ex Officio voting member.

Hawaii Health Systems Corporation — The Hawaii Health Systems Corporation (HHSC) was established as a corporate body to be placed within the Department of Health for administrative purposes. The HHSC, consisting of the state hospitals, was created to provide quality health care for all of the people in the State, including those served by small rural facilities, by freeing the facilities from unwarranted bureaucratic oversight.

Act 262, SLH of 1996, states that the HHSC shall be a public body corporate and politic and an instrumentality and agency of the State. The HHSC commenced operations on July 1, 1996. The statute provides that the HHSC shall be governed by a board of directors. The board of directors consists of the following 13 members:

- Ten members appointed by the Governor:
  - One member from each of the counties of Honolulu, Kauai, and Maui;
  - Two members from the county of Hawaii;
  - One member from either the county of Kauai, or the county of Maui (district of Hana or island of Lanai); and
  - Four at-large members;
- The chairperson of the executive public health facility management advisory committee, as an Ex Officio voting member;
- A physician appointed by the executive public health facility management advisory committee; and
- The Director of Health, as an Ex Officio voting member.

The State provides significant operating subsidies to the HHSC. Accordingly, a financial benefit/burden relationship exists between the State and the HHSC.

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities, and fund balances between the Department of Health and the HHSC pursuant to Act 262 has not been finalized as of June 30, 2007. Accordingly, the assets, liabilities, and net assets of the HHSC reflected in the accompanying basic financial statements may be significantly different from those included in the final settlement.

The HHSC is comprised of the following state hospitals:

Hale Ho'ola Hamakua
Hilo Medical Center
Ka'u Hospital
Kauai Veterans Memorial Hospital
Kohala Hospital
Kona Community Hospital
Kula Hospital
Lanai Community Hospital
Leahi Hospital
Samuel Mahelona Memorial Hospital
Maluhia
Maui Memorial Medical Center
Yukio Okutsu Veterans Care Home
Kahuku Hospital (effective July 1, 2007)

Hawaii Tourism Authority — The Hawaii Tourism Authority (HTA) was established on January 1, 1999 by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (Center) was transferred to the HTA from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA is governed by a board of directors comprised of 13 voting and two nonvoting members. The governor appoints 12 voting members. In addition, the Director of DBEDT or a designated representative is a voting member and the director of the Department of Transportation and the chairperson of the board of directors of the Department of Land and Natural Resources or designated representatives are nonvoting members.

Hawaii Community Development Authority — The Hawaii Community Development Authority (HCDA) was established as a corporate body to be placed within DBEDT for administrative purposes. The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The HCDA has redevelopment responsibility for the Kaka`ako and Kalaeloa Community Development Districts.

HRS Chapter 206E states that the HCDA shall be a body corporate and a public instrumentality of the State. The HCDA is composed of 18 voting members, 13 of whom vote on issues related to Kaka`ako and Kalaeloa, and five of whom vote only on Kalaeloa matters. The 18 members consist of the following:

- Thirteen members that vote on issues related to Kaka`ako and Kalaeloa:
  - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;
  - Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;
  - Four at-large members appointed by the Governor;
  - The Director of Budget and Finance, as an Ex Officio voting member;
  - The Director of DBEDT, as an Ex Officio voting member;
  - The Comptroller of the Department of Accounting and General Services, an Ex Officio voting member; and
  - The Director of Transportation, as an Ex Officio voting member.

- Five members appointed by the Governor that vote only on issues related to Kalaeloa:
  - The Chairperson of the Hawaiian Homes Commission;
  - The Director of the City and County of Honolulu Department of Planning and Permitting;
  - Two members from the surrounding community, one of which is selected by the Mayor of the City and County of Honolulu; and
  - One member who is a Hawaiian Cultural Specialist.

Hawaii Hurricane Relief Fund — The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began its operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

In conjunction with the HHRF's cessation of providing hurricane property insurance coverage, servicing carriers are exempted from the 3.75% assessment of their gross direct written premiums for property and casualty insurance in Hawaii, once they begin to offer their own policies. All remaining carriers are exempted effective September 30, 2001. Further, the collection of the special mortgage recording fees from mortgagers has also been suspended as of July 1, 2001.

Although the HHRF no longer functions in its capacity to provide hurricane property insurance coverage subsequent to November 2001, it has been determined at this time that the HHRF should not be dissolved in the event it may need to reenter the insurance market.

The HHRF is administered and operated by a board of directors. The board of directors consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; and
- Six members appointed by the Governor with the advice and consent of the Senate:
  - Two members appointed by the Governor;
  - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate; and
  - Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

Government-Wide and Fund Financial Statements — The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when legally enforceable enabling legislation places restrictions or are externally imposed by citizens and/or public interest groups. Additionally, restricted net assets are reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and major Component Units. However, the Fiduciary Funds are not included in the government-wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation —

Government-Wide Financial Statements — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements — The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements — The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Agency Funds do not have a measurement focus, and report only assets and liabilities.

In accordance with the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the State has elected not to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund Accounting — The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

Governmental Fund Types — The State reports the following major Governmental Funds:

- General Fund — This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- Capital Projects Fund — This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.

The nonmajor Governmental Funds are comprised of the following:

- Special Revenue Funds — These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

- Debt Service Fund — This fund accounts for the financial resources obtained and used for the payment of principal and interest on general and revenue long-term bond obligations.

Proprietary Fund Type — Enterprise Funds — The major Enterprise Funds are comprised of the following:

- Department of Transportation — Airports Division (Airports) — Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

- Department of Transportation — Harbors Division (Harbors) — Harbors maintains and operates the State's commercial harbors system.

- Unemployment Compensation Fund — This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of the Health Fund, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Fund (WPCF), and the Drinking Water Treatment Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

Fiduciary Fund Types —

- EUTF — The EUTF accounts for retiree healthcare benefits, which includes medical, dental, and life insurance coverage.

- Agency Funds — Agency Funds account for various taxes, deposits, and property held by the State pending distribution to other governments and individuals.

Component Units — Component Units are comprised of (1) the UH, which is comprised of the State's public institutions of higher education; (2) the HHFDC, which finances housing programs for residents of the State; (3) the HPHA, which manages state housing programs; (4) the HHSC, which was established to provide quality health care for all of the people of the State; (5) the HTA, which manages the State's convention center as well as markets the State's visitor industry; (6) the HCDA, which coordinates private and public community development for residents of the State; and (7) the HHRF, which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

Cash and Cash Equivalents — Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and all time certificates of deposit.

For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Receivables and Payables — Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

Investments — Investments in U.S. government securities are carried at fair value based on quoted market prices. Investments in time certificates of deposit and repurchase agreements are carried at cost.

Inventories — Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

Inventories in the Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets — Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

Capital Assets — Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, and equipment, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period.

The State's capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	12–50 years
Buildings and improvements	15–30 years
Equipment	5–7 years

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

Compensated Absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the government-wide, Proprietary Funds, and Component Units financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations — In the government-wide financial statements and Proprietary Fund Type in the fund financial statements, as well as in the Component Units financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund Type, or Component Units statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Equity — In the government-wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Portions of fund balances are reserved in the fund financial statements for the following:

- Continuing appropriations which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

- Notes and loans receivable, advances, and investments which are not currently available for expenditure at the Governmental Funds' balance sheet date.

- Federal aid highway projects encumbrances.

- Bond redemption and other.

- Fiduciary Fund balances which are restricted to the purpose of the accounts.

Portions of the unreserved fund balances are designated for future capital and operating expenditures. Those designated fund balances represent appropriations which have not been allotted and are established to reflect tentative plans for the future use of financial resources.

Nonexchange Transactions — The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

Medicare and Medicaid Reimbursements — Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State has the opinion that adequate provision has been made for any adjustments that may result from such reviews.

Risk Management — The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1 million per occurrence of property losses, the first $3 million with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $100 million, except for flood and earthquake, which individually is a $40 million aggregate loss, terrorism which is $50 million per occurrence and boiler and machinery which is $40 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is $10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of $20 million per occurrence and in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

Deferred Compensation Plan — The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

Use of Estimates — The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 48 — The GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB 48), effective December 15, 2006. This statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. GASB 48 did not have an impact on the State's basic financial statements for the fiscal year ended June 30, 2007.

GASB Statement No. 49 — The GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), effective December 15, 2007. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The State is currently evaluating the impact that GASB 49 will have on its financial statements.

GASB Statement No. 50 — The GASB issued Statement No. 50, *Pension Disclosures* (GASB 50), effective June 15, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The State is currently evaluating the impact that GASB 50 will have on its financial statements.

GASB Statement No. 51 — The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), effective June 15, 2009. This statement establishes accounting and financial reporting requirements for intangible assets. The State is currently evaluating the impact that GASB 51 will have on its financial statements.

GASB Statement No. 52 — The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* (GASB 52), effective June 15, 2008. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The State is currently evaluating the impact that GASB 52 will have on its financial statements.

2. BUDGETING AND BUDGETARY CONTROL

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the general fund statement of revenues and expenditures — budget and actual (budgetary basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2005 (Act 178, SLH of 2005), as amended by the Supplemental Appropriations Act of 2006, and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2005 — 2007 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying general fund statement of revenues and expenditures — budget and actual (budgetary basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2007, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund are presented in the general fund statement of revenues and expenditures — budget and actual (budgetary basis). The State's annual budget is prepared on the modified-accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase order and contract obligations and equipment acquired through long-term financing (basis difference) and (2) the accounting for transfers of debt service payments through the General Fund (perspective difference), which represent departures from GAAP.

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2007, follows (amounts expressed in thousands):

	General Fund
Excess of revenues and other sources over expenditures — actual (budgetary basis)	$ 91,010
Reserve for encumbrances at fiscal year-end *	279,264
Expenditures for liquidation of prior fiscal year encumbrances	(268,128)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(43,916)
Tax refunds payable	1,131
Accrued liabilities	(88,324)
Accrued revenues	61,604
Net change in fund balance — GAAP basis	$ 32,641

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

3. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

Cash — The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2007, was $2,006,414,000 and $457,738,000, respectively, and for the Primary Government and $143,961,000 for the Fiduciary Funds.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to $2,112,011,000 at June 30, 2007. Of that amount, $1,559,699,000 represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. The remaining bank balances of $552,312,000 represents deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Investments — The State holds investments both for its own benefit and as an agent for other parties. The State's investment of funds not required for immediate payments are predominantly comprised of U.S. government securities.

The following tables present the State's investments and maturities at June 30, 2007 (amounts expressed in thousands).

	Fair Value	Maturity (in years) Less than 1	1–5	>5
Investments — Primary Government:				
Certificates of deposit	$ 123,372	$ 68,455	$ 54,917	$ -
U.S. government securities	1,466,930	3,427	852,363	611,140
Repurchase agreements	374,218	263,799	110,419	-
	$ 1,964,520	$ 335,681	$ 1,017,699	$ 611,140
Investments — Fiduciary Funds:				
Certificates of deposit	$ 5,861	$ 5,861	$ -	$ -
U.S. government securities	79,123	316	78,728	79
Repurchase agreements	12,699	12,636	63	-
	$ 97,683	$ 18,813	$ 78,791	$ 79

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk — The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

The State's investments consist of auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 - 28 days. These securities were recorded at their fair value at June 30, 2007, which equaled cost. Subsequent to year-end and through April 2008, a number of auctions have failed and companies without the ability to hold such securities until maturity have taken significant losses. There is no assurance that the auctions on the remaining auction rate securities in the State's investment portfolio will succeed. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. The State believes it has the ability and intent to hold the securities for the foreseeable future. However, the State's ability to liquidate and fully recover the carrying value of its auction rate securities in the near term may be limited. The State may be required to wait until market stability is restored for these instruments or until the final maturity of the underlying loans (up to 38 years) to realize its carrying value. These securities are classified as noncurrent in the accompanying balance sheets as of June 30, 2007.

Custodial Risk — For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk — The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

4. CAPITAL ASSETS

For the fiscal year ended June 30, 2007, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities					
	Balance, July 1, 2006 (as previously reported)	Adjustments (Note 15)	Balance, July 1, 2006 (restated)	Additions	Deletions	Balance, June 30,2007
Capital assets not being depreciated:						
Land and land improvements	$ 2,308,543	$ (313,371)	$ 1,995,172	$ 23,245	$ (4,041)	$ 2,014,376
Construction in progress	602,823	(54,173)	548,650	439,336	(254,659)	733,327
Total capital assets not being depreciated	2,911,366	(367,544)	2,543,822	462,581	(258,700)	2,747,703
Capital assets being depreciated:						
Infrastructure	7,926,740	(93,354)	7,833,386	90,292	-	7,923,678
Buildings and improvements	2,972,294	(124,116)	2,848,178	114,503	(3,763)	2,958,918
Equipment	252,639	34,390	287,029	32,383	(13,000)	306,412
Total capital assets being depreciated	11,151,673	(183,080)	10,968,593	237,178	(16,763)	11,189,008
Less accumulated depreciation:						
Infrastructure	(3,403,422)	(133,674)	(3,537,096)	(230,165)	-	(3,767,261)
Buildings and improvements	(1,490,740)	20,936	(1,469,804)	(86,279)	-	(1,556,083)
Equipment	(441,821)	222,767	(219,054)	(20,566)	8,774	(230,846)
Total accumulated depreciation	(5,335,983)	110,029	(5,225,954)	(337,010)	8,774	(5,554,190)
Total capital assets	$ 8,727,056	$ (440,595)	$ 8,286,461	$ 362,749	$ (266,689)	$ 8,382,521

NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities					
	Balance, July 1, 2006 (as previously reported)	Adjustments (Note 15)	Balance, July 1, 2006 (as restated)	Additions	Deletions	Balance, June 30, 2007
Capital assets not being depreciated:						
Land and land improvements	$ 571,276	$ -	$ 571,276	$ 3,915	$ -	$ 575,191
Construction in progress	182,122	-	182,122	165,281	(142,180)	205,223
Total capital assets not being depreciated	753,398	-	753,398	169,196	(142,180)	780,414
Capital assets being depreciated:						
Buildings and improvements	2,560,923	-	2,560,923	93,230	(4,781)	2,649,372
Equipment	189,591	931	190,522	58,854	(6,306)	243,070
Total capital assets being depreciated	2,750,514	931	2,751,445	152,084	(11,087)	2,892,442
Less accumulated depreciation:						
Buildings and improvements	(1,272,569)	-	(1,272,569)	(90,539)	2,026	(1,361,082)
Equipment	(162,723)	(628)	(163,351)	(7,194)	4,030	(166,515)
Total accumulated depreciation	(1,435,292)	(628)	(1,435,920)	(97,733)	6,056	(1,527,597)
Total capital assets	$ 2,068,620	$ 303	$ 2,068,923	$ 223,547	$ (147,211)	$ 2,145,259

Depreciation expense for the fiscal year ended June 30, 2007, was charged to functions/programs of the Primary Government as follows:

	2007
Governmental activities:	
Highways	$ 231,561,236
Lower education	53,005,165
General government	15,426,706
Public safety	10,816,913
Conservation of natural resources	9,293,250
Urban redevelopment and housing	4,892,189
Health	5,291,818
Welfare	3,259,699
Economic development and assistance	2,457,952
Other education	1,005,502
Total depreciation expense — governmental activities	$ 337,010,430
Business-type activities:	
Airports	$ 82,631,333
Harbors	14,816,871
EUTF	187,499
DWTRF	88,307
WPCRF	9,575
Total depreciation expense — business-type activities	$ 97,733,585

5. GENERAL OBLIGATION BONDS PAYABLE

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt is being retired from the resources of the Proprietary Funds and Component Unit — UH and is recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues, except Series BL, issued December 6, 1988; certain maturities of Series BQ, issued November 28, 1989; Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA and CB, issued January 1, 1993; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; Series CS, issued April 1, 1998; and Series CY, issued February 15, 2002, contain call provisions (call prices range from $100 to $103). Stated interest rates range from 4% to 6.250%.

In fiscal 2007, the State issued $350,000,000 of general obligation bonds, Series DJ, dated March 28, 2007, with interest rates ranging from 3.625% to 5.000%. Bonds maturing after April 1, 2017, will be subject to redemption at the option of the State at any time on and after April 1, 2017, at a price equal to the principal amount thereof plus accrued interest to the redemption date. The bonds were issued for the purpose of financing the Hawaiian Home Lands Trust settlement and public improvement projects. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

At June 30, 2007, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 3,461,230
Noncallable	909,319
Total general obligation bonds outstanding	4,370,549
Less amount recorded as a liability of:	
Proprietary Funds (business-type activities)	37
Component Unit — UH	4,633
Component Unit — HTA	286,165
	290,835
Amount recorded in the governmental activities of the Primary Government	$ 4,079,714

A summary of general obligation bonds outstanding by series as of June 30, 2007, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
X	August 1, 1972	4.000%	August 1, 2006–2007	$ 5,125	$ 315
BL	December 6, 1988	7.681%	December 1, 2006–2008	65,001	8,126
BQ	November 28, 1989	7.100%–7.150%	December 1, 2006–2009	80,005	13,333
BW	March 1, 1992	6.250%–6.400%	March 1, 2007–2012	100,000	16,570
BZ	October 1, 1992	5.800%–6.000%	October 1, 2006–2012	200,000	75,000
CA	January 1, 1993	5.500%–8.000%	January 1, 2007–2013	90,000	30,000
CB	January 1, 1993	5.500%–5.750%	January 1, 2007–2008	107,845	8,295
CC	February 1, 1993	5.125%	February 1, 2007–2009	334,860	47,830
CH	November 1, 1993	4.750%–6.000%	November 1, 2006–2013	250,000	97,210
CI	November 1, 1993	4.500%–4.900%	November 1, 2006–2010	316,915	84,500
CL	March 1, 1996	5.100%–6.000%	March 1, 2007–2010	100,000	16,665
CM	December 1, 1996	6.000%–6.500%	December 1, 2006–2016	150,000	83,320
CN	March 1, 1997	6.000%–6.250%	March 1, 2007–2009	350,000	39,700
CO	March 1, 1997	6.000%	September 1, 2006–2010, March 1, 2007–2011	231,755	95,505
CP	October 1, 1997	5.500%–5.500%	October 1, 2006–2017	200,000	71,830
CR	April 1, 1998	5.000%–5.750%	April 1, 2007–2008	300,000	7,955
CS	April 1, 1998	5.000%–5.250%	April 1, 2007–2009	336,620	108,505
CT	September 15, 1999	5.250%–5.625%	September 1, 2006–2012	300,000	48,285
CU	October 15, 2000	4.600%–5.750%	October 1, 2006–2012	150,000	43,915
CV	August 1, 2001	4.800%–5.500%	August 1, 2006–2021	300,000	231,995
CW	August 1, 2001	3.400%–5.500%	August 1, 2006–2015	156,750	129,030
CX	February 15, 2002	3.600%–5.500%	February 1, 2007–2022	250,000	190,795
CY	February 15, 2002	3.600%–5.750%	February 1, 2007–2015	319,290	288,955
CZ	November 26, 2002	2.650%–5.500%	July 1, 2007–2020, 2022	300,000	170,980
DA	September 16, 2003	2.800%–5.250%	September 1, 2008–2023	225,000	217,885
DB	September 16, 2003	2.800%–5.250%	September 1, 2008–2016	188,650	188,650
DD	May 13, 2004	3.500%–5.250%	May 1, 2011–2024	225,000	182,825
DE	November 10, 2004	2.625%–5.000%	October 1, 2009–2024	225,000	225,000
DF	June 15, 2005	3.000%–5.000%	July 1, 2009–2024	225,000	225,000
DG	June 15, 2005	5.000%	July 1, 2009–2017	722,575	722,575
DI	March 23, 2006	3.500%–5.500%	March 1, 2010–2026	350,000	350,000
DJ	March 28, 2007	3.625%–5.000%	April 1, 2007–2027	350,000	350,000
					$ 4,370,549

The general obligation bonds outstanding financed the Hawaiian Homes Lands Trust settlement and the acquisition, construction, extension, or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the bond premium activities for fiscal year 2007 is as follows (amounts expressed in thousands):

Balance — July 1, 2006	$ 230,600
Additions — Series DJ	22,600
Current-year amortization	24,118
Balance — June 30, 2007	$ 229,082

A summary of debt service requirements to maturity on the governmental activities' general obligation bonds is as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2008	$ 312,835	$ 223,862	$ 536,697
2009	327,142	210,266	537,408
2010	323,283	179,005	502,288
2011	344,537	149,544	494,081
2012	303,664	133,043	436,707
2013—2017	1,344,109	442,317	1,786,426
2018—2022	738,275	186,993	925,268
2024—2028	385,869	42,740	428,609
	$4,079,714	$1,567,770	$5,647,484

A summary of debt service requirements to maturity on the business-type activities' general obligation bonds is as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2008	$ 9	$ 1	$ 10
2009	14	2	16
2010	14	3	17
2011	-	-	-
	$ 37	$ 6	$ 43

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2007, $884,075,000 of bonds outstanding is considered defeased.

The State Constitution limits the amount of general obligation bonds, which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2007, was $343,353,500.

At June 30, 2007, general obligation bonds authorized but unissued were approximately $1,067,188,000.

6. REVENUE BONDS PAYABLE

Governmental Activities — On March 15, 2005, the Department of Transportation — Highways Division (Highways) issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3.00% and 5.00% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2025.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates of 5.00% and 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with an average interest rate of 4.33% to advance refund $45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The bonds are payable semiannually on January and July 1 through 2013.

On October 25, 2001, Highways issued $70,000,000 of State of Hawaii Highway Revenue Bonds, Series of 2001. The bonds bear interest at rates ranging from 3.75% to 5.375% and are payable semiannually on January and July 1 through July 2022.

On October 31, 2000, Highways issued State of Hawaii Highway Revenue Bonds, Series of 2000, in the principal amount of $45,360,000. The bonds bear interest at rates ranging from 4.40% to 5.50% and mature in annual installments through July 2010.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 is to be used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates ranging from 4.00% to 5.50% and mature in annual installments through July 2018.

On September 1, 1996, Highways issued $55,000,000 in State of Hawaii Highway Revenue Bonds, Series of 1996. The bonds bear interest at rates ranging from 3.80% to 6.00% and mature in increasing annual installments through July 2009.

The bonds are payable solely from and collateralized by the revenues, consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

On January 15, 1999, the Department of Hawaiian Home Lands (DHHL) issued revenue bonds, Refunding Series of 1999, in the principal amount of $13,370,000. The bonds bear interest at rates ranging from 3.00% to 4.45% and mature in increasing annual installments through 2012. In 2007, the outstanding balance was defeased.

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B, the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 2003, DHHL's revenue bonds, Refunding Series of 1999, and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above), were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2007, bonds outstanding considered defeased amounted to $105,570,000.

The following is a summary of Highways' revenue bonds issued and outstanding at June 30, 2007 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Outstanding Amount
Highways:				
1996	September 1, 1996	3.80%–6.00%	July 1, 2007–July 1, 2009	$ 8,500
1998	July 1, 1998	4.00%–5.50%	July 1, 2006–July 1, 2018	31,575
2000	October 31, 2000	4.40%–5.50%	July 1, 2006–July 1, 2010	8,720
2001	October 25, 2001	3.75%–5.375%	July 1, 2006–July 1, 2022	19,580
2003	April 15, 2003	2.50%–5.00%	July 1, 2006–July 1, 2013	33,080
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2006–July 1, 2025	57,940
2005 B	March 15, 2005	5.00%–5.25%	July 1, 2010–July 1, 2021	123,915
				$283,310

Debt service requirements to maturity on Highways' revenue bonds are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2008	$ 14,885	$ 13,242	$ 28,127
2009	15,495	12,597	28,092
2010	16,150	11,880	28,030
2011	16,935	11,156	28,091
2012	17,570	10,445	28,015
2013-2017	101,370	38,823	140,193
2018-2022	78,860	13,390	92,250
2023-2027	22,045	1,773	23,818
	$ 283,310	$ 113,306	$ 396,616

Business-Type Activities — Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

Airports System Revenue Bonds — The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from $102 to $100.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2007 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2000A, refunding	5.50%-6.00%	2021	$ 26,415	$ 26,415
2000B, refunding	5.00%-8.00%	2020	261,465	229,785
2001, refunding	4.00%-5.75%	2021	423,255	386,930
			$ 711,135	643,130
Add unamortized premium				10,299
Less:				
Unamortized discount				(741)
Deferred loss on refunding				(12,812)
Current portion				(32,250)
				$ 607,626

The liabilities for refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2007, bonds outstanding considered defeased amounted to $74,030,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provides reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverages for fire, workers' compensation, and public liability. At June 30, 2007, $190,320,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

Airports Special Facility Revenue Bonds — Airports entered into three special facility lease agreements, two with Continental Airlines, Inc. (Continental) in November 1997 and July 2000, and one with Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. (Sky Chefs) effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $36,895,000 at June 30, 2007.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2007:

$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption at the option of Airports, upon the request of Continental, at prices ranging from $101 to $100, depending on the dates of redemption, or at $100 plus interest if the facilities are destroyed or damaged extensively.

Interest-only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

$16,600,000 Issue

On July 15, 2000, Airports issued $16,600,000 of term special facility bonds (Continental Airlines, Inc.), Refunding Series of 2000, with an interest rate of 7.00%, due June 1, 2020, to, in part, refund $18,225,000 of its outstanding Series of 1990 bonds (Continental Airlines, Inc.), with interest rates ranging from 9.60% to 9.70%. The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental or, if the facilities are destroyed or damaged extensively, at 100% of principal plus interest.

$6,600,000 Issue

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2000, at the option of Airports, upon the request of Sky Chefs, at prices ranging from $103 to $100, depending on the dates of redemption, or at $100 plus interest if the facilities are destroyed or damaged extensively.

Special facility revenue bonds payable at June 30, 2007 consisted of the following (amounts expressed in thousands):

	Continental		Sky Chefs	Total
Current portion	$ 640	$ -	$ 400	$ 1,040
Noncurrent portion	12,330	21,725	1,800	35,855
	$ 12,970	$ 21,725	$ 2,200	$ 36,895

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset, and the special facility revenue bonds outstanding are recorded as a liability in the accompanying basic financial statements.

Harbors Revenue Bonds — The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from $102.50 to $100.

The following is a summary of the Harbors revenue bonds as of June 30, 2007 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current: Principal Due July 1, 2007	Current: Principal Due January 1, 2008	Current: Total	Noncurrent
1997	July 1, 2027	3.95%–5.75%	$ 56,290	$ 540	$ -	$ 540	$ 51,865
2000	July 1, 2029	4.50%–6.00%	79,405	2,370	-	2,370	61,520
2002	July 1, 2019	3.00%–5.50%	24,420	2,205	-	2,205	13,985
2004	January 1, 2024	2.50%–6.00%	52,030	-	4,805	4,805	34,140
2006	January 1, 2031	4.00%-5.25%	96,570	-	2,105	2,105	92,505
			$308,715	5,115	6,910	12,025	254,015
Add unamortized premium				-	-	277	1,955
Less:							
Unamortized discount				-	-	(125)	(1,877)
Unamortized deferred loss on refunding				-	-	(489)	(3,203)
				$5,115	$6,910	$ 11,688	$250,890

Debt service requirements to maturity on the business-type activities' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2008	$ 32,793	$ 49,787	$ 82,580
2009	32,553	48,064	80,617
2010	34,398	46,278	80,676
2011	35,255	44,103	79,358
2012	38,758	41,887	80,645
2013-2017	319,935	162,094	482,029
2018-2022	297,368	61,310	358,678
2023-2027	52,298	14,751	67,049
2028-2031	24,995	2,824	27,819
	$868,353	$ 471,098	$1,339,451

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not include debt service reserves as of June 30, 2007, which are held in anticipation of principal and interest payments due on July 1, 2007, and January 1, 2008.

Revenue Bonds Authorized but Unissued — At June 30, 2007, revenue bonds authorized but unissued were approximately $3,044,069,000.

Special Purpose Revenue Bonds — HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2007, amounted to $1,588,403,000. At June 30, 2007, special purpose revenue bonds of $1,157,800,000 were authorized but unissued.

Improvement District Bonds — The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2007.

7. CHANGES IN LONG-TERM LIABILITIES

Changes in the long-term liabilities for the Primary Government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

	Governmental Activities						
	Balance — July 1, 2006 (as previously reported)	Adjustments (Note 15)	Balance — July 1, 2006 (as restated)	Additions	Deductions	Balance — June 30, 2007	Due Within One Year
General obligation bonds payable — net (Note 5)	$ 4,322,964	$ (232,170)	$ 4,090,794	$ 350,000	$ (361,080)	$ 4,079,714	$ 312,835
Accrued vacation payable	185,023	-	185,023	183,868	(185,023)	183,868	66,329
Revenue bonds payable (Note 6)	306,255	-	306,255	-	(22,945)	283,310	14,885
Reserve for losses and loss adjustment costs (Note 13)	77,500	-	77,500	120,199	(22,190)	175,509	57,297
Claims and judgments payable (Note 12)	204,000	(204,000)	-	-	-	-	-
Capital lease obligations (Note 10)	58,035	-	58,035	24,500	(3,445)	79,090	3,610
Total	$ 5,153,777	$ (436,170)	$ 4,717,607	$ 678,567	$ (594,683)	$ 4,801,491	$ 454,956

	Business-Type Activities						
	Balance — July 1, 2006 (as previously reported)	Adjustments (Note 15)	Balance — July 1, 2006 (as restated)	Additions	Deductions	Balance — June 30, 2007	Due Within One Year
General obligation bonds payable — net (Note 5)	$ 137	$ (90)	$ 47	$ -	$ (10)	$ 37	$ 9
Accrued vacation and retirement benefits payable	9,517	82	9,599	5,234	(4,798)	10,035	3,171
Revenue bonds payable (Note 6)	892,455	(3,614)	888,841	98,303	(44,334)	942,810	45,315
Reserve for losses and loss adjustment costs	4,560	-	4,560	1,149	(1,051)	4,658	1,286
Other	953	-	953	-	-	953	-
	907,622	(3,622)	904,000	104,686	(50,193)	958,493	49,781
Add unamortized premium	12,635	(11,671)	964	1,543	(275)	2,232	277
Less:							
Unamortized net discount	(2,570)	800	(1,770)	-	(231)	(2,001)	(125)
Deferred loss on refunding	(18,697)	14,486	(4,211)	-	519	(3,692)	(489)
	$ 898,990	$ (7)	$ 898,983	$ 106,229	$ (50,180)	$ 955,032	$ 49,444

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 80% and 19% of the accrued vacation liability has been paid by the General Fund and Special Revenue Funds, respectively, during the fiscal year ended June 30, 2007.

8. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2007 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Capital Projects Fund	$ 89,900	$ -
Nonmajor Governmental Funds	64,183	42
	154,083	42
Capital Projects Fund:		
General Fund	-	89,900
Nonmajor Governmental Funds	-	19,500
Proprietary Funds	37,047	-
	37,047	109,400
Nonmajor Governmental Funds:		
General Fund	42	64,183
Capital Projects Fund	19,500	-
Nonmajor Proprietary Fund	-	393
	19,542	64,576
Proprietary Funds -		
Capital Projects Fund	-	37,047
Nonmajor Proprietary Fund - Nonmajor Governmental Fund	393	-
	393	37,047
	$ 211,065	$ 211,065

The due from Capital Projects Fund in the General Fund consists primarily of funds transferred prior to the issuance of bonds. Remaining interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

9. TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2007, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 50,558	$ 432,737
Capital Projects Fund — Nonmajor Governmental Funds	125,025	31,277
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	5,227	10,298
Nonmajor Governmental Funds:		
General Fund	13,199	20,546
Capital Projects Fund	31,277	125,025
Other Nonmajor Governmental Funds	570,909	176,312
	615,385	321,883
	$ 796,195	$ 796,195

The General Fund transferred approximately $419,538,000 to the Nonmajor Governmental Funds for debt service payments and approximately $13,199,000 to subsidize various Special Revenue Funds programs. Approximately $125,025,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

10. LEASES

Lease Commitments

Governmental Activities — The State leases office facilities and equipment under various operating leases expiring through fiscal 2028. Future minimum lease commitments for noncancelable operating leases as of June 30, 2007, were as follows (amounts expressed in thousands):

Fiscal Year	
2008	$ 16,689
2009	12,276
2010	9,009
2011	6,230
2012	3,310
2013-2017	4,268
2018-2022	3,305
2023-2027	110
Total future minimum lease payments	$ 55,197

Rent expenditures for operating leases for the fiscal year ended June 30, 2007, amounted to approximately $43,985,000.

In November 1998, the State issued $54,850,000 in Certificates of Participation (COPS) to purchase the Kapolei State Office Building (Kapolei Building). The proceeds of the COPS were remitted to the Kapolei Building's developer. The holders of the COPS are the current owners of the Kapolei Building. Accordingly, the State's rental payments for the use of the Kapolei Building are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 1999, and continue through May 1, 2018, with interest rates ranging from 3.10% to 5.25%. Title to the Kapolei Building will transfer to the State upon the payment of all required rents.

In December 2000, the State issued $23,140,000 in COPS to purchase the No. 1 Capitol District State Office Building (Capitol District Building). The proceeds of the COPS were remitted to the former owners of the Capitol District Building. Accordingly, the State's rental payments for the use of the Capitol District Building are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2002, and continue through May 1, 2020, with interest rates ranging from 4.50% to 5.375%. Title to the Capitol District Building will transfer to the State upon the payment of all required rents.

In November 2006, the State issued $24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State's rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5.00%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

Fiscal Year	
2008	$ 7,420
2009	7,427
2010	8,061
2011	8,063
2012	8,062
2013-2017	40,316
2018-2022	18,807
2023-2027	8,559
2028-2032	8,555
Total future minimum lease payments	115,270
Less amount representing interest	(36,180)
Present value of net minimum lease payments	79,090
Less current portion	(3,610)
Noncurrent portion	$ 75,480

Lease Rentals

Airports — Airport-Airline Lease Agreement

Airports and the airline companies serving the Airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. As of the date hereof, the lease extension agreement remains in effect, with annual ad-hoc adjustments to Airports system rates and charges and related terms.

Under the lease extension agreement, the Airports system rates and charges are calculated using a residual rate-setting methodology that excludes duty-free revenues in excess of $100 million per year and any interest income earned on funds set aside for the Capital Improvements Program. The Airports system rates and charges consist of the following: (1) exclusive use terminal charges based on appraisal and recovered on a per square foot basis, (2) joint use premises charges (for nonexclusive use of terminal space) based on appraisal and recovered on a per revenue passenger landing basis, (3) international arrivals building charges based on appraisal and recovered on a per deplaning international passenger basis, (4) landing fees based on a cost center residual rate setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units), and (5) system support charges based on an Airports system residual rate setting methodology and recovered on a revenue landing landed weight basis (per thousand pound units).

Airports — Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). During fiscal 2000, the parties agreed to transfer the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal 1996 through 2006 have been transferred to the PAUCF.

Airports — Aviation Fuel Tax

In May 1996, the Department of Taxation issued a tax information release which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to $2,169,000 for fiscal 2007.

Airports — System Rates and Charges

Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees, net of aviation fuel tax credits, amounted to $38,049,000 for fiscal 2007, based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 36% of the Airports landing fees for overseas flights.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $25,795,000 for fiscal 2007. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per revenue passenger landing.

- Exclusive use premise charges amounted to $29,598,000 for fiscal 2007, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $16,267,000 for fiscal 2007.

- Airports system support charges amounted to $618,000 for fiscal 2007. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

Airports — Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2007 was approximately $56,326,000.

In fiscal 2006, Airports converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 7 months to 13 years. The balance of $3,339,000 at June 30, 2007, is due as follows: 2008 — $372,000, 2009 — $2,846,000, 2010 — $12,000 and $109,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 41% of total concession fees revenues for the fiscal year ended June 30, 2007.

DFS was originally awarded a five-year lease agreement for the in-bond concession in February 2001. By 2003, DFS had been in significant arrears in rents due to Airports as a result of financial difficulties arising from the downturn in Hawaii's economy due to the decrease in international visitor travel. As a result, in August 2003, Airports and DFS entered into a Withdrawal and Settlement Agreement, which provided DFS with certain relief for past due rents, and which allowed Airports to withdraw and recapture all of the leased premises and to terminate the in-bond lease early.

The in-bond concession was rebid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for the minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was $37,311,000, and the percentage rent was as follows: (1) for total concession receipts greater than $165 million, but less than $200 million, 22.5% for on-airport sales and 18.5% for off-airport sales; and (2) for total concession receipts greater than $200 million, 30% for on-airport sales, and 22.5% for off-airport sales.

Effective June 1, 2006, the lease was extended for a period of one year pursuant to a holdover clause in the lease agreement. During the holdover period, DFS will have a month-to-month tenancy, with rents and terms the same as those in effect immediately prior to the holdover.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2007. The lease contract provides for a minimum annual guarantee rent as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2012, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2012 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fifth year of the lease term. Percentage rent during this period is calculated the same as during the first five years of the lease term.

In February 2001, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on March 15, 2001, and terminating on March 14, 2006. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent ($9,950,000 during the last year of the five-year term.) In December 2005, the lease agreement was amended, whereby the lease period was extended for an additional 36 months, commencing on March 15, 2006. The lease rent remained the same as that which was in effect during the lease year ended March 14, 2006.

Harbors — Aloha Tower Complex Development

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring to the ATDC portions of the Aloha Tower complex. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer and entered into a capital improvements, maintenance, operations, and securities agreement (Operations Agreement) with the developer and Harbors. The Operations Agreement allows Harbors to operate the harbor facilities at Piers 8, 9, and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities, including a marketplace.

The developer later went into bankruptcy. The subsequent operator of the marketplace assumed the obligations of the sublease and the Operations Agreement in March of 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors' construction punchlist have yet to be completed and are being pursued with the new operator.

An amendment of the lease executed in fiscal 2006 altered the obligations of the ATDC to reimburse Harbors on an annual basis. For the fiscal year commencing July 1, 2004, the amendment provides that the ATDC shall pay $225,000 as a minimum annual base payment. The amendment further provides that for the fiscal year commencing July 1, 2005, onward, for any year in which the ATDC shall pay for all or any portion of the cost of personnel and other expenses relating to the Hawaii Harbors Project, the parties agree that the minimum annual base payment shall be commensurately reduced by such payments.

In addition to the minimum annual base payment, the ATDC shall also pay an amount equal to 50% of the difference between the total revenues received by the ATDC for such fiscal year and the operating expenses of the ATDC for such fiscal year (equity participation payment) to reduce the amount owed to Harbors for losses in revenues by the ATDC prior to July 1, 2004. The amendment provides for an increase in the equity participation payment as the ATDC's revenues increase.

Revenues for the fiscal year ended June 30, 2007 amounted to $85,663,000 and have been included in rental revenues.

Harbors — Leasing Operations

Harbors leases land, wharf, and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through fiscal 2058. Those leases generally call for rental increases every five to ten years based on independent appraisals of the fair rental value of the leased property.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2007 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	Airports	Harbors	Total
2008	$ 68,041	$ 8,908	$ 76,949
2009	61,555	8,573	70,128
2010	54,069	8,438	62,507
2011	53,868	8,560	62,428
2012	50,055	8,322	58,377
Thereafter	67,840	106,024	173,864
	$ 355,428	$ 148,825	$ 504,253

Net Investment in Direct Financing Leases

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2007, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 66,113
Less amount representing interest	(33,072)
	33,041
Cash with trustee and other	4,101
	$ 37,142

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2007, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2008	$ 3,383
2009	3,357
2010	3,398
2011	3,716
2012	2,765
Thereafter	53,102
	$ 69,721

11. RETIREMENT BENEFITS

Plan Description

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS 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 issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and 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 new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 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. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan, were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2007, 2006, and 2005, were approximately $341,896,000, $318,144,000, and $251,685,000, respectively. The State contributed 95.8%, 100%, and 100% of its required contributions for those years respectively. Covered payroll for the fiscal year ended June 30, 2007 was approximately $2,484,490,000.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten 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 who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the

State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 37,000 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2007, expenditures of $242,697,000 were recognized for post-retirement health care and life insurance benefits, approximately $34,079,000 of which is attributable to the Component Units.

Effective July 1, 2003, the EUTF replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

On July 1, 2006, the EUTF adopted GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (GASB 43). GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires a statement of plan net assets and a statement of changes in plan net assets for defined benefit OPEB plans that are administered as trusts or equivalent arrangements.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the EUTF reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB 10), as amended.

The EUTF administers postemployment healthcare benefits under an agent multiple-employer defined benefit plan as defined by GASB 43.

In 2007, the accounting for the active employee healthcare benefits are reported within the Proprietary Funds financial statements. The accounting for the retiree healthcare benefits are reported in the Fiduciary Funds financial statements. For financial reporting purposes, certain assets, liabilities, revenues and expenses have been allocated for the separate accounting of active and retiree healthcare benefits. In previous years, the retirees were included in the Nonmajor Proprietary Fund in the Proprietary Funds financial statements. At July 1, 2007, the net assets attributable to retiree healthcare benefits was $24,940,000, and the beginning net assets were restated to present these amounts within the Fiduciary Funds financial statements (see Note 15).

12. COMMITMENTS AND CONTINGENCIES

Commitments

General Obligation Bonds — The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 5). At June 30, 2007, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Economic Development	$ 223,430
Highways	67,045
Agriculture	7,887
Natural Resources	5,663
All Other	539
Administrative Support	7,054
	$ 311,618

Accumulated Sick Leave — Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2007, accumulated sick leave was approximately $1,304,646,000.

Intergovernmental Expenditures — In accordance with Act 250, SLH of 2002, 45% of revenues generated by the transient accommodations tax are to be distributed to the counties.

Guarantees of Indebtedness — The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $191,000,000 for aquacultural loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2007.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2007, the Enterprise Funds had commitments of approximately $341,445,000 for construction and service contracts.

Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2007, 2006, and 2005, approximated $12,462,000, $20,700,000, and $1,200,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately $1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately $36,199,000 during the fiscal year ended June 30, 2007. As of June 30, 2007, the State expects to receive $27,100,000 for the first six months of fiscal 2008.

Office of Hawaiian Affairs

In 1898, the Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the ceded lands) back to the State to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the ceded lands for native Hawaiians.

In 1979, the State Legislature adopted HRS Chapter 10, which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the ceded lands for the betterment of the conditions of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki,* 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that HRS Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki,* the State Legislature adopted Act 304, SLH of 1990, which (1) defined "public land trust" and "revenue," (2) specified that 20% of the "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of the conditions of native Hawaiians, and (3) established a process for OHA and the Director of Finance to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period from June 16, 1980 through June 30, 1991. Since fiscal 1992, the State, through its departments and agencies, has been paying 20% of "revenue" to OHA on a quarterly basis.

In 1993, the State Legislature enacted Act 35, SLH of 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period from June 16, 1980 through June 30, 1991.

In January 1994, OHA and its Board of Trustees (the Plaintiffs) filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (First Circuit) *(OHA I)*), claiming that the amount paid to OHA was inadequate and alleging that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs seek an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies it receives from (1) Airports' in-bond duty-free airport concession (including receipts from the concessionaire's off-airport sales operations); (2) the state-owned and operated Hilo Medical Center; (3) the State's public rental housing projects and affordable housing developments; and (4) interest income, including investment earnings (collectively, the Sources). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the First Circuit Court filed an order granting the Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting the Plaintiffs' four motions for partial summary judgment was granted, and all proceedings in the suit have been stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii,* 96 Haw., 388 (2001) that Act 304 was effectively repealed by its own terms, and that there were no judicially manageable standards by which to determine whether OHA was entitled to the revenue it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. See *OHA v. State,* 96 Haw., 388 (2002). The Hawaii Supreme Court dismissed the case for lack of justiciability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State

Constitution. The State Legislature took no action during the 2002 legislative session, and the State's payments of 20% of "revenue" were discontinued as of the first quarter in fiscal 2002.

The State Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the ceded lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of ceded lands to OHA, if federal or state law did not preclude all or any portion of the receipts from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipts to OHA would not cause the state agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or state agency. During the 2003 legislative session, the State Legislature appropriated monies from the various funds into which the ceded lands receipts had been deposited after the decision in *OHA I* was issued and the state agencies ceased making payments to OHA, and directed the state agencies to pay them to OHA.

OHA continues to pursue its claims for a portion of the revenues from the Sources and other ceded lands that it made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA, et al. v. State of Hawaii, et al.*, Civil No. 03-1-1505-07 *(OHA II)*. There follows additional background information pertinent to *OHA II*. In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report (the IG Report) concluding that from 1992 to 1995, the Hawaii Department of Transportation's payment to OHA of $28.2 million was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Hawaii Attorney General disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were simply an operating cost of the airports, and thus not a diversion of airport revenues in violation of federal law. In April 1997, the Acting Administrator of the FAA concurred in writing (the FAA Memorandum) with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the First Circuit Court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Hawaii Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position, set forth in the IG Report, changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In October 1997, Public Law 105-66, 1997 HR 2169 (the Forgiveness Act) was enacted into federal law. The Forgiveness Act essentially provides that in exchange for there being no further payments of airport revenues for claims related to ceded lands, any such payments received prior to April 1, 1996, need not be repaid. The Hawaii Attorney General submitted the Forgiveness Act to the Hawaii Supreme Court (Court) in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties submit supplemental briefs to address whether the Forgiveness Act affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport monies violated federal law, and that there was no live, ripe controversy regarding those payments because the Forgiveness Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* have now sued the State for alleged breaches of fiduciary duties as purported trustee of the ceded lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, alleged violations of the Contract Clause of the U.S. Constitution, and alleged misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payments in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use as a sword in *OHA I;* (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I,* and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of the Forgiveness Act and the issuance of the Hawaii Supreme Court's opinion in *OHA I.* Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I* and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also seek declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and seeks appointment of an independent trustee to temporarily replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from the sources other than airport revenues. The State filed a motion to dismiss OHA's complaint in *OHA II,* which the court granted in an order filed on December 26, 2003. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II,* denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Court affirmed the First Circuit Court's order dismissing OHA's complaint in a decision issued September 9, 2005. On December 23, 2005, the Court granted OHA's motion for reconsideration. In a decision issued April 28, 2006, the Court again affirmed the First Circuit Court's order dismissing OHA's complaint and the judgment entered in the State's favor.

In a second lawsuit, OHA filed a complaint for declaratory and injunctive relief on November 4, 1994 *(OHA v. Housing Finance and Development Corporation, et al.,* Civil No. 94-4207-11 (First Circuit)), to enjoin the State from alienating any ceded lands or, alternatively, to preclude the extinguishing of any rights native Hawaiians may have in ceded lands which may be alienated.

Alternatively, OHA sought a declaration that the amounts the Housing Finance and Development Corporation (the Corporation) and the State paid to OHA for ceded lands the Corporation planned to use to develop and sell housing units pursuant to Act 318, SLH of 1992, were insufficient. Act 318 established a separate process for valuing the ceded lands the Corporation used for its two housing developments at Kealakeke and Lahaina, and quantifying the amounts of income and proceeds from the ceded lands that the Corporation and State were required to pay OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit native Hawaiians' claim to those lands which the Plaintiff requested, and ordered that judgment be entered in the State's and the Corporation's favor as to Counts I, II, and III of the Amended Complaint. The Plaintiffs moved for and were granted leave to file immediate appeals from the trial court's ruling to the Hawaii Supreme Court. Those appeals are now pending.

On January 31, 2008 the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ing] the case to the circuit court with instructions to issue an order granting the plaintiff's request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." The plaintiffs are expected to request attorney's fees and the State expects to oppose the request.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the HHA), the executive director of the HHA, the board of director of the HHA, and the Director of Finance on July 27, 1995 *(OHA v. HHA, et al.,* Civil No. 95-2682-07 (First Circuit)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands which were transferred to the HHA for its use to develop, construct, and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA v. State of Hawaii,* Civil No. 94-0205-01 (First Circuit). The repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001, decision in *OHA v. State* should also require dismissal of the claims OHA makes in *OHA v. HHA,* and the case remains pending.

The HFDC and the HHA were merged after the filings of the second and third lawsuits described above into the HCDCH, which was subsequently bifurcated into the HHFDC and the HPHA. The Hawaii Housing Finance and Development Corporation has replaced the HFDC as a defendant in the second lawsuit, and the Hawaii Public Housing Authority has replaced the HHA as a defendant in the third lawsuit.

The State intends to vigorously defend against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Accordingly, no estimates of loss have been made in the accompanying basic financial statements. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands:

Hawaiian Home Lands Trust Fund

Act 14, Special SLH of 1995, was approved by the Governor on June 29, 1995, and obligates the State to make 20 annual deposits of $30,000,000, or their discounted value equivalent, into the Hawaiian Home Lands Trust Fund beginning in the fiscal year ended June 30, 1996. The primary purpose of Act 14 is to resolve controversies and claims related to the Hawaiian Home Lands trust which arose between August 31, 1959 and July 1, 1988. Act 14 also established in the State Treasury a trust fund known as the Hawaiian Home Lands Trust Fund.

The State transferred $30,000,000 to the Hawaiian Home Lands Trust Fund during the fiscal year ended June 30, 2007.

As of June 30, 2007, the State has transferred approximately $360,000,000 to the Hawaiian Home Lands Trust Fund. The State's remaining $240,000,000 obligation discounted at 5% and assuming annual payments of $30,000,000 over the remaining term of the obligation is approximately $193,896,000.

Transfer of Property

Act 95, SLH of 1996, authorizes the transfer of certain parcels of land to DHHL. The properties were conveyed in fiscal 1997 and the allocated costs were charged against contributed capital. The estimated future costs of those parcels will be recognized as contributions returned to the State and others when costs are incurred. The estimated allocated project costs incurred to date of those parcels of land were approximately $18,740,000.

Individual Claims

In 1991, the State Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the State Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the State Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the State Legislature deemed appropriate by October 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the State Legislature's response to the Panel's recommendations.

Legislation to allow the Panel and the State Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the State Legislature, but vetoed by the Governor in the 1999 legislative session, and the Panel unseated on December 31, 1999. As of September 30, 1999, claims from 1,376 claimants had not been reviewed by the Panel, and all but the claims of two claimants had not been acted upon by the State Legislature. In 1997, the State Legislature declared it to be its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. *Kalima, et al. v. Cayetano,* Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999 and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the First Circuit Court for declaratory and injunctive relief and for general, special, and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 99-4771-12VSM (First Circuit Court) *(Kalima I).* Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.,* Civil No. 99-612 (Third Circuit Court); *Silva v. State of Hawaii, et al.,* Civil No. 99-4775-12 (First Circuit Court); *Wilhelm v. State of Hawaii, et al.,* Civil No. 99-4774-12 (First Circuit Court); *Williamson v. State of Hawaii, et al.,* Civil No. 99-4773-12 (First Circuit Court); *Hanohano v. State of Hawaii, et al.,* Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiff Hanohano has since stipulated to the dismissal of her action without prejudice.

On March 30, 2000, the three named-plaintiffs in *Kalima I* filed a second class action lawsuit in the First Circuit Court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and the State Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 00-1-1041-03 (First Circuit Court) *(Kalima II).* All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II.*

On August 30, 2000, the First Circuit Court entered an order in *Kalima I* granting Plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying Defendants' motion for judgment on the pleadings. Essentially, the First Circuit Court rejected Defendants' sovereign immunity, lack of subject matter jurisdiction, and no-cause of action defenses, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The First Circuit Court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court, and entered an order staying all proceedings in *Kalima I* pending the Hawaii Supreme Court's disposition of the appeal. Orders to stay proceedings in all of the other cases were also entered. In a decision issued on June 30, 2006, the Hawaii Supreme Court affirmed the Plaintiffs' right to pursue their claims for damages under HRS Chapter 674, reversed the First Circuit Court's ruling that the Plaintiffs had a similar right under HRS Chapter 661, and remanded the case to the First Circuit Court for further proceedings. Proceedings in *Kalima II* and all of the other cases remained stayed.

Trial in *Kalima I* is now scheduled to begin October 6, 2008. By various stipulations and orders, the *Silva, Wilhelm, Williamson,* and *Hanohano* cases have been dismissed. Proceedings in *Kalima II* and *Aguiar* remain stayed.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly *ultra vires* rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) defectively constructed homes or infrastructure, (6) being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first. Trial on the waiting subclass' claims is schedule to begin on October 6, 2008.

The State intends to vigorously defend against all claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all the claims in the Plaintiffs' favor could have a material adverse effect on the State's financial condition.

13. RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, tsunami, and volcanic action coverage. The limit of loss per occurrence is $100,000,000, except for flood and earthquake which individually is a $40,000,000 aggregate loss, terrorism which is $50,000,000 per occurrence, and boiler and machinery which is $40,000,000 per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage which has a $100,000 limit per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $3,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $10,000,000.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Medical Insurance

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $20,000,000 per occurrence and in the aggregate.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2007 and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2007 (amounts expressed in thousands):

Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 77,500
Incurred losses and loss adjustment costs:	
Provision for insured events of current fiscal year	117,948
Increase in provision for insured events of prior fiscal years	2,251
Total incurred losses and loss adjustment costs	120,199
Payments:	
Losses and loss adjustment costs attributable to insured events of current fiscal year	(2,506)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(19,684)
Total payments	(22,190)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 175,509

14. SUBSEQUENT EVENTS

University of Hawaii

In the first half of fiscal 2008, over $101,100,000 in capital improvements program funds were released by the Governor for UH projects. In July 2007, $35,000,000 was released for the design of the first increment of the University of Hawai'i – West Oahu campus in Kapolei and the construction of infrastructure improvements to serve the campus and other UH-owned properties. In August 2007, $50,000,000 was released for plans, designs and construction for the capital renewal, health and safety and infrastructure projects at UH campuses. In September 2007, $6,000,000 was released for the plans, design and construction of the University of Hawai'i at Hilo College of Pharmacy building. In October 2007, $6,837,000 was released for the design, construction and equipment for the statewide Community College System, Temporary Facilities for Nursing Program. In November 2007, $3,288,000 was released for the design and construction for the reroofing of Honolulu Community College's Pacific Aerospace Training Center Hangar 111.

Hawaii Housing Finance and Development Corporation

On July 1, 2007, the HHFDC redeemed $13,545,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including $8,610,000 of early redemptions.

During February 2008, the auction process for the Hawaii Rental Housing System, Refunding Bonds of 2004, Series B, began to fail. Due to ongoing issues in the U.S. credit markets, particularly related to auction rate securities, management expects the auctions for these bonds to continue to fail. Accordingly, management has begun planning to refinance the bonds into fixed or variable rate securities and has targeted completion of the refinancing by July 2008. Management intends to cover the increased debt service costs through rent increases and existing reserves.

Hawaii Health Systems Corporation

Act 290 – Regional System Board of Directors

In June 2007, the State Legislature enacted Act 290, SLH of 2007. The Act, which became effective July 1, 2007, requires the establishment of a 7 to 15-member regional system board of directors for each of the five regions of the HHSC. Each regional board of directors is given custodial control and responsibility for management of the facilities and other assets in their respective regions. The Act requires that these regional boards be formed no later than January 1, 2008. The Act also restructures the 13 member HHSC board of directors to 15 members, comprised of 10 members appointed by the Governor from nominees submitted by legislative leadership (with two at-large members at the governor's discretion), two physician members selected by the HHSC's board of directors, and the Director of Health.

Act 290 also exempts the regions from the requirements of the state procurement code and other exemptions from state laws, such as tax clearance certificate requirements, the concession law, and the sunshine law.

The Act appropriates $750,000 to pay for implementation of the new structure.

Purchase of Assisted Living Facility

In September 2007, Alii Community Care, Inc. (Alii) exercised its option to purchase its 113-unit assisted living and alzheimer facility and personal property from the developer/landlord for $16 million. In connection with the purchase, Alii also assumed the land lease on which the facility is situated, and a parking license covering real property adjacent to the facility.

In connection with the purchase agreement, Alii also reached an agreement with the developer/landlord concerning an arbitration award that was rendered in favor of the developer/landlord in January 2006 for $1.9 million. The arbitration decision was on appeal to the Intermediate Court of Appeals of the State of Hawaii. Alii and the developer/landlord agreed to settle the $1.9 million judgment for $500,000. This settlement payment is in addition to the $16 million purchase price. Because of the settlement of the arbitration award, the HHSC adjusted the arbitration liability recorded at June 30, 2007 to $500,000.

Act 113 - Kahuku Hospital

In June 2007, the State Legislature enacted Act 113, SLH of 2007. The Act, amends HRS Chapter 323F, to allow for the assimilation of Kahuku Hospital into the HHSC in a manner and to an extent that may be negotiated between Kahuku Hospital and the HHSC. The Act also specifies that none of the liabilities of Kahuku Hospital shall become the liabilities of the HHSC, that the HHSC may adjust the levels of services provided by Kahuku Hospital, and that the employees of Kahuku Hospital shall not be considered employees of the State. The Act appropriated $3,900,000 to pay for the costs of assimilating Kahuku Hospital into the HHSC and to operate the facility.

From July 1, 2007 through October 31, 2007, the HHSC operated Kahuku Hospital under a management agreement between the two parties. On November 1, 2007, the HHSC purchased the assets of Kahuku Hospital, and will operate the facility as Kahuku Medical Center, a nonprofit corporation of which the HHSC is the sole member.

Airports

In April 2008, Aloha Airlines and ATA airlines ceased passenger service operations to Hawaii, impacting approximately 15% of the visitor traffic from the mainland U.S. These closures resulted in the loss of over 2,000 jobs and are expected to impact Hawaii's tourism industry in 2008. The effect of the airline closures on the State's operations is unknown at this time.

15. RESTATEMENTS

Subsequent to the issuance of the State's fiscal 2006 financial statements, management determined that the financial statements were misstated. As a result, certain amounts in the government-wide financial statements, fund financial statements, and supplementary information have been restated from the amounts previously reported. The restatements are summarized below and are recorded as adjustments to the beginning net assets of the government-wide financial statements, and beginning fund balance in the Governmental Funds financial statements.

Government-Wide Financial Statements:

- In previous years, the Hawaiian Home Lands Trust Fund was presented as a Private Purpose Trust Fund within the Fiduciary Funds financial statements. Subsequent to the issuance of the State's fiscal 2006 financial statements, management determined that the Hawaiian Home Lands Trust Fund does not meet the criteria of a Private Purpose Trust Fund as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (*GASB 34), and should be reflected within Other Governmental Funds in the Governmental Funds financial statements. Act 14, SSLH of 1995, was approved by the Governor on June 29, 1995 and obligates the State to make 20 annual deposits of $30,000,000, or their discounted value equivalent, into the Hawaiian Home Lands Trust Fund beginning in 1996. As of June 30, 2006, the State had transferred approximately $330,000,000 to the Hawaiian Home Lands Trust Fund, and the remaining $270,000,0000 obligation was discounted at 6% and recorded as claims and judgments payable in the amount of $204,000,000 in the government-wide financial statements as of June 30, 2006. As the Hawaiian Home Lands Trust Fund is not a Private Purpose Trust Fund, but rather a fund included in the Primary Government, the claims and judgments payable was overstated as of June 30, 2006.

- In previous years, the HCDA and the HTA were presented within Other Governmental Funds in the Governmental Funds financial statements. Management determined that the HCDA and the HTA should be presented as discretely presented Component Units as defined in GASB 14. As these entities were determined to be Component Units, the government-wide net assets were reduced for the HCDA and the HTA's capital assets (net of accumulated depreciation) of $181,381,000 and $272,715,000, respectively, as of June 30, 2006. In addition, the government-wide net assets were increased for the HTA's general obligation bonds payable of $232,170,000 as of June 30, 2006.

- Capital assets (net of accumulated depreciation) in the Primary Government financial statements were understated as of June 30, 2006 by $13,501,000.

- The Primary Government financial statements did not reflect deferred bond issuance costs of $2,115,000 as of June 30, 2006.

- The Primary Government financial statements did not reflect prepaid expenses of $4,024,000 as of June 30, 2006.

Component Units:

- Subsequent to the issuance of the State's fiscal 2006 financial statements, management determined that the HCDA and the HTA should be presented as discretely presented Component Units as defined in GASB 14. The HCDA and the HTA were previously presented within Other Governmental Funds in the Governmental Funds financial statements. The effect of restating the HCDA and the HTA as Component Units was to increase/(decrease) the beginning net assets of the Component Units by $274,472,000 and ($291,000), respectively, as of June 30, 2006. Beginning net assets in the government-wide financial statements and beginning fund balance in the governmental funds financial statements were decreased as a result of the restatements.

- In accordance with Act 196, SLH of 2005, as amended by Act 180, SLH of 2006, the HCDCH was split into two organizations to more effectively concentrate on the development of affordable housing. Effective July 1, 2006, the HCDCH was separated into (1) the HPHA, and (2) the HHFDC. The June 30, 2006 net assets of the Component Units have been restated to separate the HCDCH into the HPHA and the HHFDC.

- The Governmental Funds financial statements did not reflect a $28,600,000 liability to the HCDCH (transferred to the HHFDC on July 1, 2006) incurred as payment for the transfer of land to DHHL as of June 30, 2006. Beginning net assets of the Primary Government in the government-wide financial statements were also decreased as a result of the restatement.

The effect of the abovementioned restatements on the statement of net assets is as follows (amounts expressed in thousands):

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
NET ASSETS - Beginning of year - as previously reported	$ 6,262,975	$ 2,640,090	$ 8,903,065	$ 2,305,552
ADJUSTMENTS:				
Incorrect Financial Statement Presentation				
Hawaiian Homes Lands Trust Fund should be accounted for in a Special Revenue Fund and not in a Private Purpose Trust Fund	204,000	-	204,000	-
HCDA should be accounted for as a Component Unit and not in a Special Revenue Fund	(181,381)	-	(181,381)	274,472
HTA should be accounted for as a Component Unit and not in a Special Revenue Fund	(272,715)	-	(272,715)	(291)
General obligation bonds payable by HTA and not by the Primary Government	232,170	-	232,170	-
HCDCH should be separated into:				
HHFDC	-	-	-	(334,264)
HPHA	-	-	-	336,459
Accounting Errors:				
Understatement of beginning capital assets	13,501	-	13,501	-
Understatement of deferred bond issue costs	2,115	-	2,115	-
Understatement of prepaid expenses	4,024	-	4,024	-
Land transfer liability to HHFDC	(28,600)	-	(28,600)	-
Carried forward from Proprietary Funds	-	403,007	403,007	-
Carried forward from Governmental Funds	(266,542)	-	(266,542)	-
TOTAL Adjustments	(293,428)	403,007	109,579	276,376
NET ASSETS - Beginning of year - as restated	$ 5,969,547	$ 3,043,097	$ 9,012,644	$ 2,581,928

Fund Financial Statements:

Governmental Funds

- The liability recorded for allotments payable to certain component units was misstated due to a difference in the interpretation of how to account for capital funding. The effect of the restatement was to decrease beginning fund balance in the Governmental Funds financial statements by $32,647,000 in the Capital Projects Fund as of June 30, 2006. Beginning net assets of the Primary Government in the government-wide financial statements were also decreased by the same amount as a result of the restatement.

- The liability recorded for allotments payable to the HCDA was misstated due to management determining that the HCDA should be accounted for as a discretely presented Component Unit. The effect of the restatement was to decrease beginning fund balance in the Governmental Funds financial statements by $19,093,000 in the Capital Projects Fund as of June 30, 2006. Beginning net assets of the Primary Government in the government-wide financial statements were also decreased by the same amount as a result of the restatement.

The effect of the abovementioned restatements on beginning fund balance was as follows (amounts expressed in thousands):

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCE - Beginning of year - as previously reported	$ 1,263,569	$ 194,878	$ 4,755	$ 1,411,061	$ 2,874,263
ADJUSTMENTS:					
Understatement of amounts due for state allotments	-	(32,647)	-	-	(32,647)
Understatement of amounts due to the HCDA for state allotments	-	(19,093)	-	-	(19,093)
Presentation of the WPCF and the DWTLF as Nonmajor Proprietary Funds		-	-	(317,026)	(317,026)
Presentation of the HCDA and the HTA as discretely presented Component Units	-	-	-	(79,547)	(79,547)
Hawaiian Homes Lands Trust Fund should be accounted for as a Special Revenue Fund and not as a Private Purpose Trust Fund	-	-	-	181,771	181,771
Total Adjustments	-	(51,740)	-	(214,802)	(266,542)
FUND BALANCE - Beginning of year - as restated	$ 1,263,569	$ 143,138	$ 4,755	$ 1,196,259	$ 2,607,721

Proprietary Funds

- In 2007, the EUTF adopted GASB 43 (see Note 11), which required retiree healthcare benefits to be reported in the Fiduciary Funds financial statements. The postretirement plan benefits related to active employees are reported within the Proprietary Funds in accordance with GASB 10.

- Subsequent to the issuance of the State's fiscal 2006 financial statements, the State determined that the net assets related to active employee healthcare benefits was misstated. The effect of restating the net assets related to active employee healthcare benefits was to increase beginning net assets by $23,329,000 as of June 30, 2006. Beginning net assets in the government-wide financial statements were increased by the same amount as a result of the restatement.

- In previous years, the WPCF and the DWTLF were previously presented within Other Governmental Funds of the Governmental Funds financials statements; however, in 2007, it was determined that the WPCF and the DWTLF are Enterprise Funds as defined in GASB 34, and should be presented within nonmajor Proprietary Funds in the Proprietary Funds financial statements. The effect of restating the WPCF and the DWTLF as enterprise funds was to increase the beginning net assets of the Proprietary Funds by $286,751,000 and $36,570,000, respectively, as of June 30, 2006. Beginning fund balance in the Governmental Funds financial statements decreased as a result of the restatements.

- At June 30, 2006, the beginning net assets was understated by $56,357,000 because the unemployment compensation payable was misstated due to the incorrect amount being recorded for vouchers payable. The effect was to increase beginning net assets of the Proprietary Funds and the beginning net assets in the government-wide financial statements by $56,357,000 as of June 30, 2006.

The effect of the above mentioned restatements on the beginning fund balance are as follows (amounts expressed in thousands).

	Airports	Harbors	Unemployment Compensation Fund	Nonmajor Proprietary Funds	Total Proprietary Funds
FUND BALANCE - Beginning of year - as previously reported	$ 1,565,070	$ 598,307	$ 475,803	$ 910	$ 2,640,090
Adoption of GASB 43	-	-	-	23,329	23,329
Presentation of the WPCF as a Nonmajor Proprietary Fund	-	-	-	286,751	286,751
Presentation of the DWTLF as a Nonmajor Proprietary Fund	-	-	-	36,570	36,570
Overstatement of unemployment compensation payable	-	-	56,357	-	56,357
Total Adjustments	-	-	56,357	346,650	403,007
FUND BALANCE - Beginning of year - as restated	$ 1,565,070	$ 598,307	$ 532,160	$ 347,560	$ 3,043,097

Fiduciary Funds

- In 2007, the EUTF adopted GASB 43 (see Note 11), which required retiree healthcare benefits to be reported in the Fiduciary Funds financial statements. In previous years, the retirees were included in the Nonmajor Proprietary Fund in the Proprietary Funds financial statements. At June 30, 2006, the net assets attributable to retiree healthcare benefits were $24,940,000, and the fiscal 2006 financial statements were restated to present these amounts within the Fiduciary Funds financial statements.

- In previous years, the Hawaiian Home Lands Trust Fund was presented as a Private Purpose Trust Fund within the Fiduciary Funds financial statements. Subsequent to the issuance of the State's fiscal 2006 financial statements, management determined that the Hawaiian Home Lands Trust Fund does not meet the criteria of a Private Purpose Trust Fund as defined in GASB 34, and should be reflected within Other Governmental Funds in the Governmental Funds financial statements. The effect of restating the Hawaiian Home Lands Trust Fund as a Nonmajor Governmental Fund was to increase the Governmental Funds and decrease the Fiduciary Funds beginning fund balance in the respective fund financial statement by $181,771,000 as of June 30, 2006.

The effect on beginning net assets is as follows (amounts expressed in thousands):

	Private Purpose Trust Fund
NET ASSETS - Beginning of year - as previously reported	181,771
Adoption of GASB 43	24,940
Hawaiian Homes Lands Trust Fund should be accounted for as a Special Revenue Fund and not as a Private Purpose Trust Fund	(181,771)
Total Adjustments	(156,831)
NET ASSETS - Beginning of year - as restated	$ 24,940

* * * * * *

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

Highways — Accounts for programs related to maintaining and operating land transportation facilities.

Natural Resources — Accounts for programs related to the conservation, development, and utilization of agriculture, aquaculture, water, land, and other natural resources of the State.

Health — Accounts for programs related to mental health, nutrition services, communicable disease, and for other public health services.

Human Services — Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

Education — Accounts for programs related to instructional education, school food services, and student driver education.

Economic Development — Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Employment — Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

Regulatory — Accounts for programs related to consumer protection, business registration, and cable television regulation.

Hawaiian Programs — Accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support — Accounts for programs of certain administrative agencies.

All Other — Accounts for programs related to water recreation, inmate stores, and driver training and education.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 72,182	$ 32,115	$ 16,228	$ 21,006	$ 37,269	$ 6,082	$ 3,848
RECEIVABLES:							
Accrued interest	2,232	554	1,013	9	185	551	261
Notes and loans — net	-	15,039	-	-	-	39	-
Other	17,796	-	-	-	-	-	-
DUE FROM OTHER FUNDS	13,500	-	-	-	6,000	-	-
INVESTMENTS	118,916	75,770	123,195	813	32,264	26,576	29,082
OTHER ASSETS	-	1	-	-	-	-	-
TOTAL	$ 224,626	$ 123,479	$ 140,436	$ 21,828	$ 75,718	$ 33,248	$ 33,191
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 12,221	$ 2,760	$ 11,359	$ 400	$ 88,425	$ 3,864	$ 998
Other accrued liabilities	287	723	1,537	166	1,981	3,458	901
Due to other funds	-	-	-	-	-	-	-
Due to Proprietary Funds	-	-	393	-	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	12,508	3,483	13,289	566	90,406	7,322	1,899
FUND BALANCES:							
Reserved for:							
Continuing appropriations	170,341	26,699	47,026	49,704	36,529	19,934	1,107
Receivables and advances	-	16,547	-	-	-	48	-
Bond redemption and other	-	29,918	-	-	-	-	-
Unreserved for Special Revenue Funds:							
Designated for future expenditures	9,709	36,956	5,022	190	750	4,886	-
Undesignated	32,068	9,876	75,099	(28,632)	(51,967)	1,058	30,185
Total fund balances	212,118	119,996	127,147	21,262	(14,688)	25,926	31,292
TOTAL	$ 224,626	$ 123,479	$ 140,436	$ 21,828	$ 75,718	$ 33,248	$ 33,191

See accompanying independent auditors' report

Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
$ 3,382	$ 66,715	$ 20,696	$ 14,654	$ 294,177	$ 22,603	$ -	$ 316,780
339	1,784	422	92	7,442	-	-	7,442
-	50,954	-	-	66,032	-	-	66,032
-	-	-	-	17,796	-	-	17,796
					-	-	
-	-	-	-	19,500	42	-	19,542
43,594	194,200	145,880	11,752	802,042	-	-	802,042
-	24,500	-	-	24,501	-	-	24,501
$ 47,315	$ 338,153	$ 166,998	$ 26,498	$ 1,231,490	$ 22,645	$ -	$ 1,254,135
$ 86	$ 3,835	$ 699	$ 5,505	$ 130,152	$ -	$ -	$ 130,152
1,028	188	1,063	571	11,903	-	-	11,903
-	63,676	-	507	64,183	-	-	64,183
-	-	-		393	-	-	393
-	-	-	-	-	940	-	940
1,114	67,699	1,762	6,583	206,631	940	-	207,571
5,044	3,099	19,858	22,634	401,975	(14,436)	-	387,539
-	47,792	-	-	64,387	-	-	64,387
-	(1,250)	-	-	28,668	21,663	-	50,331
-	1,481	23,756	536	83,286	-	-	83,286
41,157	219,332	121,622	(3,255)	446,543	14,478	-	461,021
46,201	270,454	165,236	19,915	1,024,859	21,705	-	1,046,564
$ 47,315	$ 338,153	$ 166,998	$ 26,498	$ 1,231,490	$ 22,645	$ -	$ 1,254,135

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Special Revenue Funds							
	Highways	Natural Resources	Wastewater	Health	Human Services	Education	Economic Development	Employment
REVENUES:								
Taxes:								
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	16,915	-	1,741	-	-	-	956
Transient accommodations tax	-	1,000	-	-	-	-	-	-
Tobacco and liquor taxes	-	-	-	-	-	-	-	-
Liquid fuel tax	85,271	250	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-	-
Vehicle weight and registration tax	53,688	-	-	5,734	-	-	-	-
Rental motor/tour vehicle surcharge tax	49,479	-	-	-	-	-	-	-
Total taxes	188,438	18,165	-	7,475	-	-	-	956
Interest and investment income	16,917	4,751	-	5,298	77	1,064	1,281	1,656
Charges for current services	1,773	18,370	-	65,687	275	34,498	4,213	13,291
Intergovernmental	108,543	18,618	-	95,617	371,416	232,236	8,785	40,247
Rentals	-	4,464	-	-	-	38	2,123	-
Fines, forfeitures, and penalties	1,248	49	-	2,148	-	-	-	650
Licenses and fees	1,961	596	-	1,614	105	752	-	-
Revenues from private sources	-	15	-	36,535	27	107	-	-
Other	4,530	3,819	-	111	682	8,474	1,190	1,428
Total revenues	323,410	68,847	-	214,485	372,582	277,169	17,592	58,228
EXPENDITURES:								
Current:								
General government	-	3,508	-	30	-	-	-	-
Public safety	-	1,326	-	-	-	-	-	2,215
Conservation of natural resources	-	54,659	-	360	-	-	-	-
Health	-	-	-	247,747	-	-	-	-
Welfare	-	-	-	-	306,078	-	-	-
Lower education	-	-	-	-	-	356,987	-	-
Other education	-	-	-	-	13,633	-	-	-
Culture and recreation	-	7,612	-	-	-	3,908	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Economic development and assistance	-	2,462	-	-	-	-	27,313	61,675
Other	-	-	-	-	-	-	-	-
Highways	195,182	46	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Total expenditures	195,182	69,613	-	248,137	319,711	360,895	27,313	63,890
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	128,228	(766)	-	(33,652)	52,871	(83,726)	(9,721)	(5,662)
OTHER FINANCING SOURCES (USES):								
Issuance of certificates of participation	-	-	-	-	-	-	-	-
Transfers in	37	3,134	-	46,816	11,884	1,680	10,050	86
Transfers out	(188,287)	(2,578)	-	(14,058)	(76,399)	-	-	(520)
Total other financing sources (uses)	(188,250)	556	-	32,758	(64,515)	1,680	10,050	(434)
NET CHANGE IN FUND BALANCES	(60,022)	(210)	-	(894)	(11,644)	(82,046)	329	(6,096)
FUND BALANCES — Beginning of year — as previously reported	272,140	120,206	317,026	128,041	32,906	67,358	105,144	37,388
Adjustments (Note 15)	-	-	(317,026)	-	-	-	(79,547)	-
FUND BALANCES — Beginning of year — as restated	272,140	120,206	-	128,041	32,906	67,358	25,597	37,388
FUND BALANCES — End of year	$ 212,118	$ 119,996	$ -	$ 127,147	$ 21,262	$ (14,688)	$ 25,926	$ 31,292

Special Revenue Funds							
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ -	$ 2,000
-	-	-	-	19,612	-	-	19,612
-	-	-	-	1,000	-	-	1,000
-	-	1,532	-	1,532	-	-	1,532
-	-	-	1,658	87,179	-	-	87,179
2,008	-	-	-	2,008	-	-	2,008
-	-	-	-	59,422	-	-	59,422
-	-	-	-	49,479	-	-	49,479
4,008	-	1,532	1,658	222,232	-	-	222,232
1,923	13,772	3,253	602	50,594	-	-	50,594
17,327	487	56,361	18,490	230,772	-	-	230,772
-	21,820	22,670	44,144	964,096	-	-	964,096
-	11,355	911	2,184	21,075	-	-	21,075
1,298	-	227	2,156	7,776	-	-	7,776
9,460	-	14,697	407	29,592	-	-	29,592
-	-	859	27	37,570	-	-	37,570
72	32,498	987	9,644	63,435	26,854	-	90,289
34,088	79,932	101,497	79,312	1,627,142	26,854	-	1,653,996
-	-	25,101	9,478	38,117	-	-	38,117
33,153	-	11,184	63,273	111,151	-	-	111,151
-	-	3	-	55,022	-	-	55,022
-	-	6	-	247,753	-	-	247,753
-	-	15,881	349	322,308	-	-	322,308
-	-	7,600	-	364,587	-	-	364,587
-	-	-	-	13,633	-	-	13,633
-	-	9,787	12,995	34,302	-	-	34,302
-	141,574	-	-	141,574	-	-	141,574
-	-	3	-	91,453	-	-	91,453
-	-	3,832	-	3,832	-	-	3,832
-	-	-	-	195,228	-	-	195,228
-	-	-	-	-	502,733	-	502,733
33,153	141,574	73,397	86,095	1,618,960	502,733	-	2,121,693
935	(61,642)	28,100	(6,783)	8,182	(475,879)	-	(467,697)
-	24,500	-	-	24,500	-	-	24,500
2,701	31,284	9,957	7,398	125,027	490,358	-	615,385
(2,593)	(10,250)	(23,284)	(3,914)	(321,883)	-	-	(321,883)
108	45,534	(13,327)	3,484	(172,356)	490,358	-	318,002
1,043	(16,108)	14,773	(3,299)	(164,174)	14,479	-	(149,695)
45,158	104,791	150,463	23,214	1,403,835	7,226	-	1,411,061
-	181,771	-	-	(214,802)	-	-	(214,802)
45,158	286,562	150,463	23,214	1,189,033	7,226	-	1,196,259
$ 46,201	$ 270,454	$ 165,236	$ 19,915	$ 1,024,859	$ 21,705	$ -	$ 1,046,564

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Highways			Natural Resources		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Liquid fuel tax:						
Highways	$ 82,948	$ 85,618	$ 2,670	$ 220	$ 250	$ 30
Boating	-	-	-	-	-	-
Vehicle registration fee tax	20,048	20,765	717	-	-	-
State vehicle weight tax	29,719	33,309	3,590	-	-	-
Rental/tour vehicle surcharge tax	47,891	46,989	(902)	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	14,798	16,915	2,117
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	180,606	186,681	6,075	16,018	18,165	2,147
Non-taxes:						
Interest and investment income	10,900	16,511	5,611	2,197	3,318	1,121
Charges for current services	20,162	1,773	(18,389)	18,218	18,370	152
Intergovernmental	108,100	108,543	443	10,741	18,618	7,877
Rentals	-	-	-	2,871	4,464	1,593
Fines, forfeitures and penalties	1,075	1,257	182	64	49	(15)
Licenses and fees	1,844	1,961	117	800	596	(204)
Revenues from private sources	-	-	-	1	15	14
Other	-	32,535	32,535	2,873	4,614	1,741
Total non-taxes	142,081	162,580	20,499	37,765	50,044	12,279
Total revenues	322,687	349,261	26,574	53,783	68,209	14,426
EXPENDITURES:						
General government	-	-	-	3,491	3,478	13
Public safety	-	-	-	3,748	1,477	2,271
Highways	292,293	221,927	70,366	-	-	-
Conservation of natural resources	-	-	-	71,961	50,486	21,475
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	8,589	6,880	1,709
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	1,683	1,124	559
Other	-	-	-	-	-	-
Total expenditures	292,293	221,927	70,366	89,472	63,445	26,027
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 30,394	$ 127,334	$ 96,940	$ (35,689)	$ 4,764	$ 40,453

Health			Education		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
5,049	5,734	685	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,800	1,741	(59)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,849	7,475	626	-	-	-
1,758	5,262	3,504	428	964	536
76,703	92,135	15,432	31,496	34,498	3,002
97,218	98,789	1,571	204,443	232,236	27,793
-	-	-	36	38	2
792	2,148	1,356	-	-	-
807	771	(36)	732	752	20
42,155	36,535	(5,620)	10	107	97
85	46,577	46,492	1,780	10,122	8,342
219,518	282,217	62,699	238,925	278,717	39,792
226,367	289,692	63,325	238,925	278,717	39,792
178	39	139	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
350	349	1	-	-	-
338,472	295,096	43,376	-	-	-
-	-	-	-	-	-
-	-	-	463,714	287,103	176,611
-	-	-	-	-	-
-	-	-	4,885	3,332	1,553
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
339,000	295,484	43,516	468,599	290,435	178,164
$(112,633)	$ (5,792)	$ 106,841	$(229,674)	$(11,718)	$ 217,956

(Continued)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Human Services			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negativ
REVENUES:						
Taxes:						
Liquid fuel tax:						
Highways	$ -	$ -	$ -	$ -	$ -	$ -
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	-	-	-
Non-taxes:						
Interest and investment income	-	68	68	330	1,117	787
Charges for current services	-	275	275	6,841	4,213	(2,628)
Intergovernmental	293,112	289,297	(3,815)	14,550	8,785	(5,765)
Rentals	-	-	-	2,670	2,123	(547)
Fines, forfeitures and penalties	-	-	-	-	-	-
Licenses and fees	406	105	(301)	-	-	-
Revenues from private sources	-	27	27	-	-	-
Other	-	2,068	2,068	16	11,618	11,602
Total non-taxes	293,518	291,840	(1,678)	24,407	27,856	3,449
Total revenues	293,518	291,840	(1,678)	24,407	27,856	3,449
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	354,032	284,630	69,402	-	-	-
Lower education	-	-	-	-	-	-
Other education	13,848	12,620	1,228	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	60,091	23,503	36,588
Other	-	-	-	-	-	-
Total expenditures	367,880	297,250	70,630	61,191	23,503	37,688
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (74,362)	$ (5,410)	$ 68,952	$ (36,784)	$ 4,353	$ 41,137

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
900	956	56	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	2,000	2,008	8
900	956	56	4,000	4,008	8
890	1,565	675	861	1,753	892
18,000	13,291	(4,709)	16,505	17,327	822
49,838	40,247	(9,591)	-	-	-
-	-	-	-	-	-
100	650	550	605	1,298	693
-	-	-	8,781	9,460	679
-	-	-	-	-	-
6	2,331	2,325	2,631	2,765	134
68,834	58,084	(10,750)	29,383	32,603	3,220
69,734	59,040	(10,694)	33,383	36,611	3,228
-	-	-	20	-	20
-	-	-	45,818	37,139	8,679
2,229	2,217	12	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
122,827	73,555	49,272	-	-	-
-	-	-	-	-	-
125,056	75,772	49,284	45,838	37,139	8,699
$(55,322)	$ (16,732)	$ 38,590	$(12,455)	$ (528)	$ 11,927

(Continued)

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Liquid fuel tax:						
Highways	$ -	$ -	$ -	$ -	$ -	$ -
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	1,145	1,532	387
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,145	1,532	387
Non-taxes:						
Interest and investment income	870	1,748	878	1,177	3,042	1,865
Charges for current services	1	-	(1)	40,990	58,603	17,613
Intergovernmental	5,000	21,820	16,820	18,282	21,847	3,565
Rentals	2,660	6,599	3,939	6,095	6,373	278
Fines, forfeitures and penalties	-	-	-	234	227	(7)
Licenses and fees	-	-	-	12,116	14,697	2,581
Revenues from private sources	-	-	-	950	859	(91)
Other	3,240	10,578	7,338	16,553	847,961	831,408
Total non-taxes	11,771	40,745	28,974	96,397	953,609	857,212
Total revenues	11,771	40,745	28,974	97,542	955,141	857,599
EXPENDITURES:						
General government	-	-	-	609,269	574,701	34,568
Public safety	-	-	-	22,056	10,264	11,792
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	336	45	291
Health	-	-	-	-	-	-
Welfare	-	-	-	20,680	16,377	4,303
Lower education	-	-	-	6,500	6,008	492
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	13,444	9,860	3,584
Urban redevelopment and housing	35,809	30,191	5,618	-	-	-
Economic development and assistance	-	-	-	25	20	5
Other	-	-	-	306,779	297,132	9,647
Total expenditures	35,809	30,191	5,618	979,089	914,407	64,682
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (24,038)	$ 10,554	$ 34,592	$ (881,547)	$ 40,734	$ 922,281

All Other			Total Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ 83,168	$ 85,868	$ 2,700
1,300	1,658	358	1,300	1,658	358
-	-	-	25,097	26,499	1,402
-	-	-	29,719	33,309	3,590
-	-	-	47,891	46,989	(902)
-	-	-	900	956	56
-	-	-	1,145	1,532	387
-	-	-	14,798	16,915	2,117
-	-	-	1,800	1,741	(59)
-	-	-	1,000	1,000	-
-	-	-	2,000	2,000	-
-	-	-	2,000	2,008	8
1,300	1,658	358	210,818	220,475	9,657
291	553	262	19,702	35,901	16,199
14,349	18,490	4,141	243,265	258,975	15,710
36,816	44,144	7,328	838,100	884,326	46,226
1,912	2,184	272	16,244	21,781	5,537
2,140	2,156	16	5,010	7,785	2,775
395	407	12	25,881	28,749	2,868
-	27	27	43,116	37,570	(5,546)
6,176	16,850	10,674	33,360	988,019	954,659
62,079	84,811	22,732	1,224,678	2,263,106	1,038,428
63,379	86,469	23,090	1,435,496	2,483,581	1,048,085
13,908	10,681	3,227	626,866	588,899	37,967
125,069	62,907	62,162	200,020	114,004	86,016
-	-	-	292,293	221,927	70,366
-	-	-	72,647	50,880	21,767
-	-	-	338,472	295,096	43,376
550	339	211	375,262	301,346	73,916
-	-	-	470,214	293,111	177,103
-	-	-	13,848	12,620	1,228
16,470	11,127	5,343	43,388	31,199	12,189
-	-	-	35,809	30,191	5,618
-	-	-	184,626	98,202	86,424
-	-	-	306,779	297,132	9,647
155,997	85,054	70,943	2,960,224	2,334,607	625,617
$ (92,618)	$ 1,415	$ 94,033	$ (1,524,728)	$ 148,974	$ 1,673,702

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2007
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$ 148,974
RESERVE FOR ENCUMBRANCES AT YEAR-END*	284,429
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES	(291,057)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS	(56,024)
TRANSFERS	46,220
ACCRUED LIABILITIES	(399,702)
ACCRUED REVENUES	275,342
EXCESS OF REVENUES OVER EXPENDITURES — GAAP basis	$ 8,182

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

See accompanying independent auditors' report.

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

ASSETS	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CURRENT ASSETS:				
Cash and cash equivalents (Note 3)	$ 56,384	$ 154,516	$ 18,084	$ 228,984
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $6,669)	469	2,592	213	3,274
Promissory note receivable (net of allowance for doubtful accounts of $7,808	-	17,247	2,078	19,325
Other	-	592	772	1,364
Premium receivable	4,717	-	-	4,717
Due from Special Revenue Fund	-	-	393	393
Prepaid expenses and other assets	9,325	-	-	9,325
Total current assets	70,895	174,947	21,540	267,382
NONCURRENT ASSETS:				
Capital assets - equipment	2,308	55	955	3,318
	2,308	55	955	3,318
Less accumulated depreciation	(2,154)	(38)	(685)	(2,877)
Net capital assets	154	17	270	441
Promissory note receivable	-	171,819	38,801	210,620
Total noncurrent assets	154	171,836	39,071	211,061
TOTAL	$ 71,049	$ 346,783	$ 60,611	$ 478,443

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2007
(Amounts in thousands)

LIABILITIES	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 194	$ 76	$ 128	$ 398
Other accrued liabilities	80	-	-	80
Accrued vacation, current portion	32	-	-	32
Premiums payable	44,880	-	-	44,880
Total current liabilities	45,186	76	128	45,390
NONCURRENT LIABILITIES - Accrued vacation	45	195	20	260
TOTAL	$ 45,231	$ 271	$ 148	$ 45,650
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	$ 154	$ 17	$ 270	$ 441
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	346,495	60,193	406,688
UNRESTRICTED	25,664	-	-	25,664
TOTAL NET ASSETS	$ 25,818	$ 346,512	$ 60,463	$ 432,793

(Concluded)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
OPERATING REVENUES:				
Administrative fees	$ 1,980	$ 1,577	$ 790	$ 4,347
Other	-	3,443	197	3,640
Total operating revenues	1,980	5,020	987	7,987
OPERATING EXPENSES:				
Personnel services	759	-	-	759
Depreciation	187	10	88	285
Repairs and maintenance	353	-	-	353
General administration	900	1,571	799	3,270
Other	635	-	-	635
Total operating expenses	2,834	1,581	887	5,302
Operating income (loss)	(854)	3,439	100	2,685
NONOPERATING REVENUES (EXPENSES):				
Interest income	2,002	6,476	777	9,255
Other	431	-	-	431
Total nonoperating revenues (expenses)	2,433	6,476	777	9,686
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,579	9,915	877	12,371
CAPITAL CONTRIBUTIONS	-	49,846	23,016	72,862
CHANGE IN NET ASSETS	1,579	59,761	23,893	85,233
NET ASSETS — Beginning — as previously reported	910	-	-	910
ADJUSTMENTS (Note 15)	23,329	286,751	36,570	346,650
NET ASSETS — Beginning — as restated	24,239	286,751	36,570	347,560
NET ASSETS — End of year	$ 25,818	$ 346,512	$ 60,463	$ 432,793

See accompanying independent auditors' report.

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from employees	$ 290,183	$ -	$ -	$ 290,183
Cash paid to suppliers	(1,074)	(143)	(474)	(1,691)
Cash paid to employees	(770)	(1,219)	(199)	(2,188)
Cash paid for premiums	(271,781)	-	-	(271,781)
Cash paid for premium deposit for self-funded plans	(9,308)	-	-	(9,308)
Reserves returned by insurance carriers	148	-	-	148
Interest income from loans	-	3,430	188	3,618
Administrative loan fees	-	1,524	633	2,157
Principal repayments on loans	-	13,119	1,158	14,277
Disbursement of loan proceeds	-	(63,510)	(25,069)	(88,579)
Other cash receipts	(2)	-	-	(2)
Net cash provided by (used in) operating activities	7,396	(46,799)	(23,763)	(63,166)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Net advances to other funds	-	-	(28)	(28)
State capital contributions	-	2,053	1,661	3,714
Proceeds from federal operating grants	-	49,310	21,404	70,714
Net cash provided by noncapital financing activities	-	51,363	23,037	74,400
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITY –				
Acquisition and construction of capital assets	-	(10)	(73)	(83)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments	(28)	-	-	(28)
Interest from investments	1,814	6,252	746	8,812
Net cash provided by investing activities	1,786	6,252	746	8,784
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,182	10,806	(53)	19,935
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	47,202	143,710	18,137	209,049
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ 56,384	$ 154,516	$ 18,084	$ 228,984

(Continued)

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	$ (854)	$ 3,439	$ 100	$ 2,685
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	187	10	88	285
Other nonoperating income	-	-	1	1
Reserves provided by operating activities	329	-	-	329
Premium reserves held by insurance companies	13	-	-	13
Decrease (increase) in assets:				
Receivables	(145)	(50,438)	(24,068)	(74,651)
Deposits	(9,308)	-	-	(9,308)
Prepaid expenses	16	-	-	16
Increase (decrease) in liabilities:				
Vouchers and contracts payable	118	-	-	118
Other accrued liabilities	17,040	203	126	17,369
Accrued interest on loans receivable	-	(13)	(10)	(23)
Net cash provided by (used in) operating activities	$ 7,396	$ (46,799)	$ (23,763)	$ (63,166)

See accompanying independent auditors' report.

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2007
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 22,073	$ 66,771	$ 16,020	$ 104,864
RECEIVABLES - Accrued Interest	-	-	9,762	9,762
DUE FROM INDIVIDUALS, BUSINESSES, AND COUNTIES	30,286	-	-	30,286
INVESTMENTS:				
Certificates of deposit	-	2,869	2,992	5,861
U.S. government securities	-	38,733	40,390	79,123
Repurchase agreements	-	6,216	6,483	12,699
Total investments	-	47,818	49,865	97,683
TOTAL	$ 52,359	$ 114,589	$ 75,647	$ 242,595
LIABILITIES				
VOUCHERS PAYABLE	$ 52,359	$ 841	$ 129	$ 53,329
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	113,748	75,518	189,266
TOTAL	$ 52,359	$ 114,589	$ 75,647	$ 242,595

See accompanying independent auditors' report.

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Amounts in thousands)

	Balance — July 1, 2006	Additions	Deductions	Balance — June 30, 2007
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 2,786	$ 6,337,437	$ (6,318,150)	$ 22,073
Due from individuals, businesses, and counties	13,698	6,354,024	(6,337,436)	30,286
Total assets	$ 16,484	$ 12,691,461	$ (12,655,586)	$ 52,359
Liabilities — Vouchers payable	$ 16,484	$ 52,359	$ (16,484)	$ 52,359
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 65,400	$ 3,329,595	$ (3,328,225)	$ 66,770
Receivables	169	-	(169)	-
Investments	38,975	47,819	(38,975)	47,819
Total assets	$ 104,544	$ 3,377,414	$ (3,367,369)	$ 114,589
Liabilities:				
Vouchers payable	$ 3,026	$ 841	$ (3,026)	$ 841
Due to individuals, businesses, and counties	101,518	3,329,427	(3,317,197)	113,748
Total liabilities	$ 104,544	$ 3,330,268	$ (3,320,223)	$ 114,589
OTHER:				
Assets:				
Cash and cash equivalents	$ 13,452	$ 41,237	$ (38,668)	$ 16,021
Receivables	11,844	9,762	(11,844)	9,762
Investments	33,036	49,864	(33,036)	49,864
Total assets	$ 58,332	$ 100,863	$ (83,548)	$ 75,647
Liabilities:				
Vouchers payable	$ 145	$ 129	$ (145)	$ 129
Due to individuals, businesses, and counties	58,187	39,155	(21,824)	75,518
Total liabilities	$ 58,332	$ 39,284	$ (21,969)	$ 75,647
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 81,638	$ 9,708,269	$ (9,685,043)	$ 104,864
Receivables	12,013	9,762	(12,013)	9,762
Due from individuals, businesses, and counties	13,698	6,354,024	(6,337,436)	30,286
Investments	72,011	97,683	(72,011)	97,683
Total assets	$ 179,360	$ 16,169,738	$ (16,106,503)	$ 242,595
Liabilities:				
Vouchers payable	$ 19,655	$ 53,329	$ (19,655)	$ 53,329
Due to individuals, businesses, and counties	159,705	3,368,582	(3,339,021)	189,266
Total liabilities	$ 179,360	$ 3,421,911	$ (3,358,676)	$ 242,595

See accompanying independent auditors' report.

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APPENDIX C

EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII

ARTICLE VII

TAXATION AND FINANCE

LAPSING OF APPROPRIATIONS

Section 11. All appropriations for which the source is general obligation bond funds or general funds shall be for specified periods. No such appropriation shall be made for a period exceeding three years; provided that appropriations from the state educational facilities improvement special fund may be made for periods exceeding three years to allow for construction or acquisition of public school facilities. Any such appropriation or any portion of any such appropriation that is unencumbered at the close of the fiscal period for which the appropriation is made shall lapse; provided that no appropriation for which the source is general obligation bond funds nor any portion of any such appropriation shall lapse if the legislature determines that the appropriation or any portion of the appropriation is necessary to qualify for federal aid financing and reimbursement. Where general obligation bonds have been authorized for an appropriation, the amount of the bond authorization shall be reduced in an amount equal to the amount lapsed.

DEFINITIONS; ISSUANCE OF INDEBTEDNESS

Section 12. For the purposes of this article:

1. The term "bonds" shall include bonds, notes and other instruments of indebtedness.

2. The term "general obligation bonds" means all bonds for the payment of the principal and interest of which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, includes reimbursable general obligation bonds.

3. The term "net revenues" or "net user tax receipts" means the revenues or receipts derived from:

   a. A public undertaking, improvement or system remaining after the costs of operation, maintenance and repair of the public undertaking, improvement or system, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made; or

   b. Any payments or return on security under a loan program or a loan thereunder, after the costs of operation and administration of the loan program, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made.

4. The term "person" means an individual, firm, partnership, corporation, association, cooperative or other legal entity, governmental body or agency, board, bureau or other instrumentality thereof, or any combination of the foregoing.

5. The term "rates, rentals and charges" means all revenues and other moneys derived from the operation or lease of a public undertaking, improvement or system, or derived from any payments or return on security under a loan program or a loan thereunder; provided that insurance premium payments, assessments and surcharges, shall constitute rates, rentals and charges of a state property insurance program.

6. The term "reimbursable general obligation bonds" means general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the general fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political

subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the general fund is required by law to be made from the revenue of the political subdivision.

7. The term "revenue bonds" means all bonds payable from the revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law, including a loan program to provide loans to a state property insurance program providing hurricane insurance coverage to the general public.

[Subsections 8 and 9 are omitted.]

The legislature, by a majority vote of the members to which each house is entitled, shall authorize the issuance of all general obligation bonds, bonds issued under special improvement statutes and revenue bonds issued by or on behalf of the State and shall prescribe by general law the manner and procedure for such issuance. The legislature by general law shall authorize political subdivisions to issue general obligation bonds, bonds issued under special improvement statutes and revenue bonds and shall prescribe the manner and procedure for such issuance. All such bonds issued by or on behalf of a political subdivision shall be authorized by the governing body of such political subdivision.

Special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist:

1. Manufacturing, processing or industrial enterprises;

2. Utilities serving the general public;

3. Health care facilities provided to the general public by not-for-profit corporations;

4. Early childhood education and care facilities provided to the general public by not-for-profit corporations;

5. Low and moderate income government housing programs; or

6. Not-for-profit private nonsectarian and sectarian elementary schools, secondary schools, colleges and universities,

each of which is hereinafter referred to in this paragraph as a special purpose entity.

The legislature, by a two-thirds vote of the members to which each house is entitled, may enact enabling legislation for the issuance of special purpose revenue bonds separately for each special purpose entity, and, by a two-thirds vote of the members to which each house is entitled and by separate legislative bill, may authorize the State to issue special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the legislature; and provided further that the State may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. The legislature may enact enabling legislation to authorize political subdivisions to issue special purpose revenue bonds. If so authorized, a political subdivision by a two-thirds vote of the members to which its governing body is entitled and by separate ordinance may authorize the issuance of special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the governing body of the political subdivision; and provided further that the political subdivision may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. No special purpose revenue bonds shall be secured directly or indirectly by the general credit of the issuer or by any revenues or taxes of the issuer other than receipts derived from payments by a person under contract or from any security for such contract or special purpose revenue bonds and no moneys other than such receipts shall be applied to the payment thereof. The governor shall provide the legislature in November of each year with a report on the cumulative amount of all special purpose revenue bonds authorized and issued, and such other information as may be necessary.

DEBT LIMIT; EXCLUSIONS

Section 13. General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed: a sum equal to twenty percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance until June 30, 1982; and thereafter, a sum equal to eighteen and one-half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance. Effective July 1, 1980, the legislature shall include a declaration of findings in every general law authorizing the issuance of general obligation bonds that the total amount of principal and interest, estimated for such bonds and for all bonds authorized and unissued and calculated for all bonds issued and outstanding, will not cause the debt limit to be exceeded at the time of issuance. Any bonds issued by or on behalf of the State may exceed the debt limit if an emergency condition is declared to exist by the governor and concurred to by a two-thirds vote of the members to which each house of the legislature is entitled. For the purpose of this paragraph, general fund revenues of the State shall not include moneys received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded as permitted by this section.

A sum equal to fifteen percent of the total of the assessed values for tax rate purposes of real property in each political subdivision, as determined by the last tax assessment rolls pursuant to law, is established as the limit of the funded debt of such political subdivision that is outstanding and unpaid at any time.

All general obligation bonds for a term exceeding two years shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal installments of both principal and interest. The first installment of principal of general obligation bonds and of reimbursable general obligation bonds shall mature not later than five years from the date of issue of such series. The last installment on general obligation bonds shall mature not later than twenty-five years from the date of such issue and the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds and on bonds constituting instruments of indebtedness under which the State or a political subdivision incurs a contingent liability as a guarantor shall mature not later than thirty-five years from the date of such issue. The interest and principal payments of general obligation bonds shall be a first charge on the general fund of the State or political subdivision, as the case may be.

In determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision under section 12, the following shall be excluded:

1. Bonds that have matured, or that mature in the then current fiscal year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then fiscal year, or for the full payment of which moneys or securities have been irrevocably set aside.

2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and interest on all revenue bonds issued for the public undertaking, improvement or system or loan program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and to apply the same to such payments in the amount necessary therefor.

3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.

4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.

5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year.

7. Reimbursable general obligation bonds issued by the State for any political subdivision, whether issued before or after the effective date of this section, but only for as long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after the effective date of this section, the consent of the governing body of the political subdivision has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such political subdivision.

8. Bonds constituting instruments of indebtedness under which the State or any political subdivision incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under this section; provided that the State or political subdivision shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State or political subdivision as provided by law.

9. Bonds issued by or on behalf of the State or by any political subdivision to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year, and bonds issued by or on behalf of the State to suppress insurrection, to repel invasion, to defend the State in war or to meet emergencies caused by disaster or act of God.

The total outstanding indebtedness of the State or funded debt of any political subdivision and the exclusions therefrom permitted by this section shall be made annually and certified by law or as provided by law. For the purposes of section 12 and this section, amounts received from on-street parking may be considered and treated as revenues of a parking undertaking.

Nothing in section 12 or in this section shall prevent the refunding of any bond at any time.

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APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII
as of March 1, 2008
ISSUED AND OUTSTANDING

General Obligation bonds and general obligation refunding bonds of the State of Hawaii issued and outstanding.

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due		Outstanding Principal
December 6, 1988	$ 65,000,954.43, Series BL, non-callable (compound interest bonds)	7.681%	December 1, 2008 @	4,065,039.05	4,065,039.05
November 28, 1989	$ 80,005,159.73, Series BQ, callable (certain maturities bear compound interest, non-callable)	7.150%	December 1, 2008 @	4,444,432.49	
		7.150%	December 1, 2009 @	4,444,540.00	8,888,972.49
March 1, 1992	$ 100,000,000, Series BW, noncallable	6.375%	March 1, 2011 @	5,460,000.00	
		6.250%	March 1, 2012 @	5,555,000.00	11,015,000.00
October 1, 1992	$ 200,000,000 Series BZ, noncallable	6.000%	October 1, 2008 - 2012 @	12,500,000.00	62,500,000.00
January 1, 1993	$ 90,000,000 Series CA, noncallable	6.000%	January 1, 2009 @	5,000,000.00	
		5.750%	January 1, 2010 - 2011 @	5,000,000.00	
		5.500%	January 1, 2012 @	5,000,000.00	
		8.000%	January 1, 2013 @	5,000,000.00	25,000,000.00
February 1, 1993	$ 334,860,000 Series CC, callable (refunding)	5.125%	February 1, 2009 @	23,915,000.00	23,915,000.00
November 1, 1993	$ 250,000,000, Series CH, noncallable	6.000%	November 1, 2008 - 2009 @	13,890,000.00	
		6.000%	November 1, 2010 @	13,885,000.00	
		4.750%	November 1, 2011 - 2013 @	13,885,000.00	83,320,000.00
November 1, 1993	$ 316,915,000, Series CI, noncallable (refunding)	4.750%	November 1, 2008 - 2009 @	21,125,000.00	
		4.900%	November 1, 2010 @	21,125,000.00	63,375,000.00
March 1, 1996	$ 100,000,000, Series CL, callable	6.000%	March 1, 2009 @	5,555,000.00	
		6.000%	March 1, 2011 @	5,555,000.00	11,110,000.00
December 1, 1996	$ 150,000,000, Series CM, noncallable	6.000%	December 1, 2008 - 2010 @	8,335,000.00	
		6.000%	December 1, 2011 - 2012 @	8,330,000.00	
		6.500%	December 1, 2013 - 2016 @	8,330,000.00	74,985,000.00
March 1, 1997	$ 350,000,000, Series CN, callable	6.000%	March 1, 2009 @	20,045,000.00	20,045,000.00
March 1, 1997	$ 231,755,000, Series CO, noncallable (refunding)	6.000%	September 1, 2008 @	11,395,000.00	
		6.000%	March 1, 2009 @	11,735,000.00	
		6.000%	September 1, 2009 @	12,090,000.00	
		6.000%	March 1, 2010 @	12,450,000.00	
		6.000%	September 1, 2010 @	12,825,000.00	
		6.000%	March 1, 2011 @	13,210,000.00	73,705,000.00
October 1, 1997	$ 200,000,000, Series CP, callable	5.500%	October 1, 2008 @	10,445,000.00	
		5.500%	October 1, 2009 @	11,035,000.00	
		5.500%	October 1, 2010 @	11,660,000.00	
		5.000%	October 1, 2011 @	3,525,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.000%	October 1, 2012	@	3,705,000.00	
		5.000%	October 1, 2013	@	3,895,000.00	
		5.000%	October 1, 2014	@	4,095,000.00	
		5.000%	October 1, 2015	@	4,305,000.00	
		5.000%	October 1, 2016	@	4,525,000.00	
		5.000%	October 1, 2017	@	4,755,000.00	61,945,000.00
April 1, 1998	$ 300,000,000, Series CR, callable	5.750%	April 1, 2008	@	7,955,000.00	7,955,000.00
April 1, 1998	$ 336,620,000, Series CS, noncallable (refunding)	5.000%	April 1, 2008	@	52,930,000.00	
		5.000%	April 1, 2009	@	55,575,000.00	108,505,000.00
September 15, 1999	$ 300,000,000, Series CT, callable	5.250%	September 1, 2008	@	14,310,000.00	
		5.250%	September 1, 2009	@	15,080,000.00	
		5.625%	September 1, 2012	@	5,315,000.00	34,705,000.00
October 15, 2000	$ 150,000,000, Series CU, callable	5.750%	October 1, 2008	@	4,565,000.00	
		4.750%	October 1, 2008	@	2,190,000.00	
		5.750%	October 1, 2009	@	6,110,000.00	
		4.875%	October 1, 2009	@	1,025,000.00	
		5.750%	October 1, 2010	@	6,980,000.00	
		4.900%	October 1, 2010	@	575,000.00	
		5.750%	October 1, 2011	@	6,795,000.00	
		5.000%	October 1, 2011	@	825,000.00	
		5.750%	October 1, 2012	@	5,985,000.00	
		5.100%	October 1, 2012	@	2,470,000.00	37,520,000.00
August 1, 2001	$ 300,000,000, Series CV, callable	5.500%	August 1, 2008	@	13,005,000.00	
		5.500%	August 1, 2009	@	13,745,000.00	
		5.500%	August 1, 2010	@	14,520,000.00	
		5.500%	August 1, 2011	@	15,340,000.00	
		5.375%	August 1, 2012	@	16,200,000.00	
		5.375%	August 1, 2013	@	17,095,000.00	
		5.375%	August 1, 2014	@	18,035,000.00	
		4.800%	August 1, 2016	@	705,000.00	
		5.375%	August 1, 2016	@	6,860,000.00	
		5.125%	August 1, 2017	@	7,495,000.00	
		5.375%	August 1, 2018	@	22,305,000.00	
		4.900%	August 1, 2019	@	2,385,000.00	
		5.375%	August 1, 2019	@	21,145,000.00	
		5.000%	August 1, 2020	@	24,775,000.00	
		5.000%	August 1, 2121	@	5,590,000.00	
		5.250%	August 1, 2121	@	20,485,000.00	219,685,000.00
August 1, 2001	$ 156,750,000, Series CW, callable (refunding)	5.500%	August 1, 2008	@	6,505,000.00	
		4.000%	August 1, 2008	@	6,110,000.00	
		5.500%	August 1, 2009	@	2,275,000.00	
		4.100%	August 1, 2009	@	10,990,000.00	
		5.500%	August 1, 2010	@	2,420,000.00	
		4.200%	August 1, 2010	@	11,560,000.00	
		4.300%	August 1, 2011	@	3,365,000.00	
		5.500%	August 1, 2011	@	11,370,000.00	
		4.400%	August 1, 2012	@	1,045,000.00	
		5.375%	August 1, 2012	@	14,490,000.00	
		4.500%	August 1, 2013	@	1,680,000.00	
		5.375%	August 1, 2013	@	14,700,000.00	
		4.600%	August 1, 2014	@	225,000.00	
		5.375%	August 1, 2014	@	17,050,000.00	
		4.700%	August 1, 2015	@	720,000.00	
		5.375%	August 1, 2015	@	12,475,000.00	116,980,000.00
February 1, 2002	$ 250,000,000, Series CX, callable	4.000%	February 1, 2009	@	11,665,000.00	
		4.125%	February 1, 2010	@	6,840,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.250%	February 1, 2010	@	5,290,000.00	
		4.250%	February 1, 2011	@	6,095,000.00	
		5.250%	February 1, 2011	@	6,595,000.00	
		4.300%	February 1, 2012	@	6,135,000.00	
		5.250%	February 1, 2012	@	7,165,000.00	
		4.500%	February 1, 2013	@	1,525,000.00	
		5.500%	February 1, 2013	@	12,415,000.00	
		4.600%	February 1, 2014	@	2,140,000.00	
		5.500%	February 1, 2014	@	140,000.00	
		4.625%	February 1, 2015	@	480,000.00	
		5.500%	February 1, 2015	@	790,000.00	
		4.750%	February 1, 2016	@	410,000.00	
		5.500%	February 1, 2016	@	9,055,000.00	
		4.800%	February 1, 2017	@	725,000.00	
		5.500%	February 1, 2017	@	9,255,000.00	
		5.000%	February 1, 2018	@	10,520,000.00	
		5.000%	February 1, 2019	@	19,065,000.00	
		5.100%	February 1, 2020	@	20,015,000.00	
		5.500%	February 1, 2021	@	21,040,000.00	
		5.125%	February 1, 2022	@	22,195,000.00	179,555,000.00
February 1, 2002	$ 319,290,000, Series CY, noncallable refunding	4.000%	February 1, 2009	@	10,695,000.00	
		5.250%	February 1, 2009	@	21,000,000.00	
		5.250%	February 1, 2010	@	31,675,000.00	
		5.500%	February 1, 2011	@	34,970,000.00	
		5.500%	February 1, 2012	@	36,895,000.00	
		5.750%	February 1, 2013	@	38,920,000.00	
		5.750%	February 1, 2014	@	41,160,000.00	
		5.750%	February 1, 2015	@	43,525,000.00	258,840,000.00
November 26, 2002	$ 300,000,000, Series CZ, callable	2.900%	July 1, 2008	@	7,895,000.00	
		5.000%	July 1, 2008	@	5,470,000.00	
		3.125%	July 1, 2009	@	4,315,000.00	
		3.250%	July 1, 2009	@	9,520,000.00	
		3.300%	July 1, 2010	@	3,340,000.00	
		5.250%	July 1, 2010	@	11,065,000.00	
		3.500%	July 1, 2011	@	1,175,000.00	
		5.250%	July 1, 2011	@	13,965,000.00	
		3.600%	July 1, 2012	@	3,510,000.00	
		5.250%	July 1, 2012	@	12,405,000.00	
		3.750%	July 1, 2013	@	1,945,000.00	
		5.500%	July 1, 2013	@	14,800,000.00	
		3.900%	July 1, 2014	@	1,360,000.00	
		5.500%	July 1, 2014	@	16,305,000.00	
		4.000%	July 1, 2015	@	2,305,000.00	
		4.150%	July 1, 2016	@	210,000.00	
		5.250%	July 1, 2016	@	16,805,000.00	
		4.250%	July 1, 2017	@	375,000.00	
		4.300%	July 1, 2018	@	60,000.00	
		5.250%	July 1, 2018	@	21,705,000.00	
		4.500%	July 1, 2020	@	1,160,000.00	
		4.800%	July 1, 2022	@	8,370,000.00	158,060,000.00
September 16, 2003	$225,000,000 Series DA, callable	2.800%	September 1, 2008	@	9,970,000.00	
		3.125%	September 1, 2009	@	10,270,000.00	
		3.500%	September 1, 2010	@	3,570,000.00	
		4.000%	September 1, 2010	@	7,060,000.00	
		3.750%	September 1, 2011	@	7,570,000.00	
		4.000%	September 1, 2011	@	3,475,000.00	
		3.900%	September 1, 2012	@	830,000.00	
		4.000%	September 1, 2012	@	10,110,000.00	
		4.250%	September 1, 2012	@	550,000.00	
		4.000%	September 1, 2013	@	11,955,000.00	
		4.200%	September 1, 2014	@	4,355,000.00	
		5.250%	September 1, 2014	@	8,145,000.00	
		4.300%	September 1, 2015	@	1,475,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.250%	September 1, 2015	@	11,670,000.00	
		4.400%	September 1, 2016	@	10,000.00	
		5.250%	September 1, 2016	@	13,835,000.00	
		4.500%	September 1, 2017	@	350,000.00	
		5.250%	September 1, 2017	@	7,125,000.00	
		4.600%	September 1, 2018	@	1,240,000.00	
		5.250%	September 1, 2018	@	14,135,000.00	
		5.250%	September 1, 2019	@	16,195,000.00	
		4.750%	September 1, 2020	@	35,000.00	
		5.250%	September 1, 2020	@	17,035,000.00	
		4.800%	September 1, 2021	@	500,000.00	
		5.250%	September 1, 2021	@	17,490,000.00	
		4.900%	September 1, 2022	@	250,000.00	
		5.250%	September 1, 2022	@	18,710,000.00	
		4.900%	September 1, 2023	@	4,675,000.00	
		5.250%	September 1, 2023	@	15,295,000.00	217,885,000.00
September 16, 2003	$188,650,000, Series DB, callable	2.800%	September 1, 2008	@	6,065,000.00	
		4.000%	September 1, 2008	@	11,100,000.00	
		4.000%	September 1, 2009	@	6,515,000.00	
		5.000%	September 1, 2009	@	11,370,000.00	
		5.000%	September 1, 2010	@	18,770,000.00	
		5.000%	September 1, 2011	@	19,730,000.00	
		5.000%	September 1, 2012	@	20,740,000.00	
		4.250%	September 1, 2013	@	3,380,000.00	
		5.250%	September 1, 2013	@	18,435,000.00	
		4.000%	September 1, 2014	@	5,000,000.00	
		5.250%	September 1, 2014	@	17,945,000.00	
		5.250%	September 1, 2015	@	24,150,000.00	
		5.250%	September 1, 2016	@	25,450,000.00	188,650,000.00
May 13, 2004	$225,000,000, Series DD, callable	3.500%	May 1, 2011	@	$2,140,000.00	
		3.700%	May 1, 2012	@	1,195,000.00	
		5.000%	May 1, 2012	@	9,825,000.00	
		3.800%	May 1, 2013	@	1,090,000.00	
		5.000%	May 1, 2013	@	10,465,000.00	
		4.000%	May 1, 2014	@	4,060,000.00	
		5.250%	May 1, 2014	@	8,055,000.00	
		4.125%	May 1, 2015	@	2,295,000.00	
		5.250%	May 1, 2015	@	10,410,000.00	
		4.200%	May 1, 2016	@	790,000.00	
		5.000%	May 1, 2016	@	7,725,000.00	
		4.250%	May 1, 2017	@	575,000.00	
		5.000%	May 1, 2017	@	13,430,000.00	
		4.300%	May 1, 2018	@	460,000.00	
		5.000%	May 1, 2018	@	5,230,000.00	
		4.400%	May 1, 2019	@	610,000.00	
		5.000%	May 1, 2019	@	14,825,000.00	
		4.500%	May 1, 2020	@	250,000.00	
		5.000%	May 1, 2020	@	15,950,000.00	
		5.000%	May 1, 2021	@	17,010,000.00	
		5.250%	May 1, 2022	@	17,860,000.00	
		4.750%	May 1, 2023	@	1,150,000.00	
		5.250%	May 1, 2023	@	17,645,000.00	
		4.800%	May 1, 2024	@	2,045,000.00	
		5.250%	May 1, 2024	@	17,735,000.00	182,825,000.00
November 10, 2004	$225,000,000 Series DE, callable	5.000%	October 1, 2009	@	2,960,000.00	
		2.625%	October 1, 2009	@	6,815,000.00	
		5.000%	October 1, 2010	@	5,090,000.00	
		3.000%	October 1, 2010	@	5,050,000.00	
		5.000%	October 1, 2011	@	5,715,000.00	
		3.000%	October 1, 2011	@	4,845,000.00	
		5.000%	October 1, 2012	@	8,250,000.00	
		3.250%	October 1, 2012	@	2,775,000.00	
		5.000%	October 1, 2013	@	10,610,000.00	
		3.375%	October 1, 2013	@	950,000.00	
		5.000%	October 1, 2014	@	7,420,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		3.500%	October 1, 2014	@	4,685,000.00	
		5.000%	October 1, 2015	@	11,665,000.00	
		3.600%	October 1, 2015	@	1,020,000.00	
		5.000%	October 1, 2016	@	11,600,000.00	
		3.625%	October 1, 2016	@	1,715,000.00	
		5.000%	October 1, 2017	@	13,855,000.00	
		3.750%	October 1, 2017	@	130,000.00	
		5.000%	October 1, 2018	@	14,380,000.00	
		3.800%	October 1, 2018	@	320,000.00	
		5.000%	October 1, 2019	@	13,955,000.00	
		3.875%	October 1, 2019	@	1,490,000.00	
		5.000%	October 1, 2020	@	15,435,000.00	
		4.000%	October 1, 2020	@	785,000.00	
		5.000%	October 1, 2021	@	16,675,000.00	
		4.000%	October 1, 2021	@	375,000.00	
		5.000%	October 1, 2022	@	14,360,000.00	
		4.125%	October 1, 2022	@	3,545,000.00	
		5.000%	October 1, 2023	@	17,270,000.00	
		4.200%	October 1, 2023	@	1,530,000.00	
		5.000%	October 1, 2024	@	12,565,000.00	
		4.300%	October 1, 2024	@	7,165,000.00	225,000,000.00
June 15, 2005	$ 225,000,000, Series DF, callable	3.000%	July 1, 2009	@	$9,060,000.00	
		3.125%	July 1, 2010	@	9,340,000.00	
		3.250%	July 1, 2011	@	9,645,000.00	
		3.375%	July 1, 2012	@	2,165,000.00	
		5.000%	July 1, 2012	@	7,865,000.00	
		3.500%	July 1, 2013	@	1,855,000.00	
		5.000%	July 1, 2013	@	8,660,000.00	
		3.600%	July 1, 2014	@	955,000.00	
		5.000%	July 1, 2014	@	10,075,000.00	
		3.625%	July 1, 2015	@	1,800,000.00	
		5.000%	July 1, 2015	@	9,780,000.00	
		3.750%	July 1, 2016	@	60,000.00	
		5.000%	July 1, 2016	@	12,100,000.00	
		3.800%	July 1, 2017	@	25,000.00	
		5.000%	July 1, 2017	@	12,755,000.00	
		3.800%	July 1, 2018	@	25,000.00	
		5.000%	July 1, 2018	@	13,410,000.00	
		3.875%	July 1, 2019	@	70,000.00	
		5.000%	July 1, 2019	@	14,055,000.00	
		5.000%	July 1, 2020	@	14,850,000.00	
		3.875%	July 1, 2021	@	185,000.00	
		5.000%	July 1, 2021	@	15,425,000.00	
		4.000%	July 1, 2022	@	125,000.00	
		5.000%	July 1, 2022	@	16,285,000.00	
		5.000%	July 1, 2023	@	17,250,000.00	
		4.000%	July 1, 2024	@	270,000.00	
		5.000%	July 1, 2024	@	17,865,000.00	
		4.000%	July 1, 2025	@	2,900,000.00	
		5.000%	July 1, 2025	@	16,145,000.00	225,000,000.00
June 15, 2005	$ 722,575,000, Series DG, callable	5.000%	July 1, 2009	@	65,185,000.00	
		5.000%	July 1, 2010	@	68,530,000.00	
		5.000%	July 1, 2011	@	72,040,000.00	
		5.000%	July 1, 2012	@	75,735,000.00	
		5.000%	July 1, 2013	@	79,620,000.00	
		5.000%	July 1, 2014	@	83,705,000.00	
		5.000%	July 1, 2015	@	87,995,000.00	
		5.000%	July 1, 2016	@	92,510,000.00	
		5.000%	July 1, 2017	@	97,255,000.00	722,575,000.00
March 23, 2006	$ 350,000,000, Series DI, callable	3.500%	March 1, 2010	@	$8,980,000.00	
		5.000%	March 1, 2010	@	4,945,000.00	
		3.625%	March 1, 2011	@	7,410,000.00	
		4.000%	March 1, 2011	@	950,000.00	
		5.000%	March 1, 2011	@	6,125,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		3.750%	March 1, 2012	@	7,600,000.00	
		5.000%	March 1, 2012	@	7,500,000.00	
		3.800%	March 1, 2013	@	4,170,000.00	
		4.000%	March 1, 2013	@	2,250,000.00	
		5.500%	March 1, 2013	@	9,340,000.00	
		3.900%	March 1, 2014	@	1,390,000.00	
		5.000%	March 1, 2014	@	15,130,000.00	
		3.900%	March 1, 2015	@	1,065,000.00	
		4.500%	March 1, 2015	@	4,000,000.00	
		5.000%	March 1, 2015	@	12,270,000.00	
		4.000%	March 1, 2016	@	7,135,000.00	
		5.000%	March 1, 2016	@	11,030,000.00	
		4.000%	March 1, 2017	@	1,705,000.00	
		5.000%	March 1, 2017	@	17,300,000.00	
		4.000%	March 1, 2018	@	885,000.00	
		5.000%	March 1, 2018	@	19,050,000.00	
		4.125%	March 1, 2019	@	235,000.00	
		5.000%	March 1, 2019	@	20,690,000.00	
		4.125%	March 1, 2020	@	340,000.00	
		5.000%	March 1, 2020	@	21,630,000.00	
		4.200%	March 1, 2021	@	105,000.00	
		5.000%	March 1, 2021	@	22,960,000.00	
		4.250%	March 1, 2022	@	135,000.00	
		5.000%	March 1, 2022	@	24,080,000.00	
		5.000%	March 1, 2023	@	25,425,000.00	
		4.250%	March 1, 2024	@	50,000.00	
		5.000%	March 1, 2024	@	26,650,000.00	
		5.000%	March 1, 2025	@	28,035,000.00	
		4.300%	March 1, 2026	@	460,000.00	
		5.000%	March 1, 2026	@	28,975,000.00	350,000,000.00
April 12, 2007	$ 350,000,000, Series DJ, callable	3.625%	April 1, 2011	@	$9,010,000.00	
		4.000%	April 1, 2011	@	5,000,000.00	
		3.625%	April 1, 2012	@	4,690,000.00	
		4.000%	April 1, 2012	@	9,850,000.00	
		4.000%	April 1, 2013	@	6,315,000.00	
		5.000%	April 1, 2013	@	8,790,000.00	
		3.750%	April 1, 2014	@	2,705,000.00	
		4.500%	April 1, 2014	@	2,450,000.00	
		5.000%	April 1, 2014	@	10,640,000.00	
		3.750%	April 1, 2015	@	2,140,000.00	
		5.000%	April 1, 2015	@	14,395,000.00	
		4.000%	April 1, 2016	@	8,990,000.00	
		4.500%	April 1, 2016	@	2,250,000.00	
		5.000%	April 1, 2016	@	6,095,000.00	
		3.800%	April 1, 2017	@	3,115,000.00	
		4.500%	April 1, 2017	@	375,000.00	
		5.000%	April 1, 2017	@	14,610,000.00	
		5.000%	April 1, 2018	@	18,970,000.00	
		5.000%	April 1, 2019	@	19,915,000.00	
		5.000%	April 1, 2020	@	20,910,000.00	
		5.000%	April 1, 2021	@	21,960,000.00	
		5.000%	April 1, 2022	@	23,055,000.00	
		5.000%	April 1, 2023	@	24,210,000.00	
		5.000%	April 1, 2024	@	25,420,000.00	
		5.000%	April 1, 2025	@	26,690,000.00	
		5.000%	April 1, 2026	@	28,025,000.00	
		5.000%	April 1, 2027	@	29,425,000.00	350,000,000.00

Total of all State of Hawaii general obligation bonds and general obligation refunding bonds issued and outstanding:..$4,107,609,011.54

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated May __, 2008

$375,000,000 **State of Hawaii** **General Obligation Bonds of 2008, Series DK**	**$29,010,000** **State of Hawaii** **General Obligation Refunding Bonds of 2008, Series DL**	**$25,000,000** **State of Hawaii** **General Obligation Bonds of 2008, Taxable Series DM**

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State") in connection with the issuance of its $375,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2008, Series DK, its $29,010,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2008, Series DL and its $25,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2008, Taxable Series DM (collectively, the "Bonds"). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State, as implemented by that certain Certificate of the Director of Finance of the State of Hawaii providing for the issuance of the Bonds (the "Bond Certificate"). Pursuant to Section 403 of the Bond Certificate, the State covenants and agrees as follows:

Section 1. Purpose of Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the State 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).

Section 2. Definitions. In addition to the definitions set forth in the Bond 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" shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, 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" shall mean the Director of Finance or any successor Dissemination Agent designated in writing by the State and which has filed with the State a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at http//www.sec.gov/info/municipal/nrmsir.htm.

"Participating Underwriters" shall mean any original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean 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.

"State" shall mean the State of Hawaii.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports. (a) The State shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the State's fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2008, to each Repository an Annual report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate, provided that the audited financial statements of the State 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. If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under subsection 5(c).

(b) Not later than 15 Business Days prior to said date, the State shall provide the Annual Report to the Dissemination Agent (if other than the State). If the State is unable to provide to the Repositories an Annual Report by the date required in subsection (a) above, the State shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the State), file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Contents of Annual Reports. The State's Annual Report shall contain or include by reference information of the type included in Appendix B to the final Official Statement (the "Official Statement") dated May 12, 2008, relating to the Bonds.

The audited financial statements of the State for the prior fiscal year shall be 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 State's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State 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 State shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;

9. unscheduled draws on the credit enhancements reflecting financial difficulties;

10. Substitution of the credit or liquidity providers or their failure to perform; or

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the State obtains knowledge of the occurrence of a Listed Event, the State shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the State determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the State shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in Subsections (a)(4) and (5) above 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 Bond Certificate.

Section 6. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

Section 7. Dissemination Agent. The State may, from time to time, 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. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State pursuant to this Disclosure Certificate.

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

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, 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 Bond Certificate for amendments to the Bond Certificate with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, 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 State 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 State. 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 subsection 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 State 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 State 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 State 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 State 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 State 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 Bond Certificate with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the State, 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.

Section 12. Governing Law. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawaii, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawaii; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

STATE OF HAWAII

By ________________________________

GEORGINA K. KAWAMURA
Director of Finance
State of Hawaii

EXHIBIT A

FORM OF NOTICE OF REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	State of Hawaii
Names of Bond Issues:	State of Hawaii General Obligation Bonds of 2008, Series DK State of Hawaii General Obligation Refunding Bonds of 2008, Series DL State of Hawaii General Obligation Bonds of 2008, Taxable Series DM
Date of Issuance:	________________________

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated ______________. [The State anticipates that the Annual Report will be filed by ______________.]

Dates:

STATE OF HAWAII

By ____

Title ______________________________________

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APPENDIX F

FORM OF OPINION OF BOND COUNSEL

May __, 2008

State of Hawaii
Honolulu, Hawaii

$375,000,000	$29,010,000	$25,000,000
State of Hawaii	**State of Hawaii**	**State of Hawaii**
General Obligation Bonds of 2008, Series DK	**General Obligation Refunding Bonds of 2008, Series DL**	**General Obligation Bonds of 2008, Taxable Series DM**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Hawaii (the "State") of $375,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2008, Series DK (the "Series DK Bonds"), $29,010,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2008, Series DL (the "Series DL Bonds") and $25,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2008, Taxable Series DM (the "Series DM Bonds" and, together with the Series DK Bonds and the Series DL Bonds, the "Bonds"), pursuant to the provisions of Part I of Chapter 39, Hawaii Revised Statutes, a Certificate of the Director of Finance of the State dated May 7, 2008 (the "Certificate"), and various acts of the Legislature of the State identified in the Certificate.

In such connection, we have reviewed the Certificate, the Tax Certificate of the State, dated the date hereof (the "Tax Certificate"), certificates and opinions of the Attorney General and certificates of other officers of the State, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial 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. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. 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 Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series DK Bonds or the Series DL Bonds to be included in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code").

The rights and obligations under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. 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 general obligations of the State.

2. The Certificate has been duly executed and delivered by the Director of Finance and constitutes the valid obligation of the State.

3. Interest and principal payments on the Bonds are a first charge on the general fund of the State to the punctual payment of which the full faith and credit of the State are pledged.

4. Interest on the Series DK Bonds and the Series DL Bonds (including original issue discount treated as interest, if any) is excluded from gross income for federal income tax purposes, and is not an specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for certain corporations, interest on the Series DK Bonds and the Series DL Bonds is included in the "adjusted current earnings" (i.e., alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Code), and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

5. Interest on the Bonds is exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer and estate taxes, provided that no opinion is expressed with respect to the franchise tax imposed on banks and other financial institutions.

We express no opinion as to whether the interest on the Series DM Bonds is exempt from federal income taxation.

Very truly yours,

[To be signed and delivered at Closing by
Kutak Rock LLP]

APPENDIX G

BOOK-ENTRY SYSTEM

General. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of each issue of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. DTC 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions in deposited securities, such as transfers and pledges, through electronic computerized Book-Entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (for the purposes of the discussion under "Book-Entry System," a "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, but Beneficial Owners are 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 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry System for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. 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.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal of and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. 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 the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of Book-Entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of the Official Statement. In reviewing this Official Statement it should be understood that while the Bonds are in the Book-Entry System, references in other Sections of this Official Statement to owners or holders should be read to include the person for whom the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners or holders by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

DTC and Book-Entry Information. Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the State and the Underwriters 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 Underwriters or the State.

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Bonds, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as Owner of the Bonds or (v) any other event or purpose.