NEW ISSUES
FULL BOOK-ENTRY ONLY **RATINGS: See "Ratings" herein.**

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

STATE OF HAWAII

$575,000,000
General Obligation
Bonds of 2014,
Series EO

$209,015,000
General Obligation
Refunding Bonds of 2014,
Series EP

$25,000,000
Taxable General Obligation
Bonds of 2014,
Series EQ

$5,880,000
Taxable General Obligation
Refunding Bonds of 2014,
Series ER

$193,880,000
Taxable General Obligation
Refunding Bonds of 2014,
Series ES

(Base CUSIP: 419791)

Dated: Date of Delivery **Due:** As shown on inside cover

The General Obligation Bonds of 2014, Series EO, the General Obligation Refunding Bonds of 2014, Series EP, the Taxable General Obligation Bonds of 2014, Series EQ, the Taxable General Obligation Refunding Bonds of 2014, Series ER and the Taxable General Obligation Refunding Bonds of 2014, Series ES (individually, the "Series EO Bonds", the "Series EP Bonds", the "Series EQ Bonds", the "Series ER Bonds" and the "Series ES Bonds", 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 H—"BOOK-ENTRY SYSTEM" herein. The Bonds of each series bear interest payable at the rates set forth on the inside cover hereof on February 1 and August 1 of each year, commencing August 1, 2015.

The Series EO Bonds, the Series EP Bonds, the Series EQ Bonds and the Series ES Bonds are subject to optional redemption prior to their stated maturities as and to the extent described herein. The Series ER Bonds are not subject to redemption prior to maturity.

The Series EO Bonds and the Series EQ Bonds 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. The Series EP Bonds, the Series ER Bonds and the Series ES Bonds (the "Refunding Bonds") are being issued for the purpose of refunding certain 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 series are offered when, as and if issued and received by the Underwriters, and are subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Alston Hunt Floyd & Ing and Katten Muchin Rosenman 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 November 25, 2014.

J.P. Morgan **BofA Merrill Lynch** **Morgan Stanley**

Barclays **Citigroup** **Goldman, Sachs & Co.** **Piper Jaffray & Co.**

RBC Capital Markets **Stifel** **Wells Fargo Securities**

Dated: November 13, 2014

STATE OF HAWAII

$575,000,000 GENERAL OBLIGATION BONDS OF 2014, SERIES EO
Dated: Date of Delivery
Due: August 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)†
2019	$7,810,000	3.00%	1.21%	5G9
2019	$16,685,000	5.00%	1.21%	6B9
2020	$9,510,000	4.00%	1.60%	5H7
2020	$16,110,000	5.00%	1.60%	6C7
2021	$3,740,000	3.00%	1.88%	5J3
2021	$23,110,000	5.00%	1.88%	6D5
2022	$5,255,000	4.00%	2.12%	5K0
2022	$22,905,000	5.00%	2.12%	6E3
2023	$2,095,000	3.00%	2.32%	5L8
2023	$27,460,000	5.00%	2.32%	6F0
2024	$5,305,000	4.00%	2.41%	5M6
2024	$25,720,000	5.00%	2.41%	6G8
2025	$730,000	3.00%	2.66% C	5N4
2025	$31,850,000	5.00%	2.55% C	6H6
2026	$440,000	4.00%	2.76% C	5P9
2026	$33,800,000	5.00%	2.66% C	6J2
2027	$2,130,000	3.00%	3.03%	5Q7
2027	$33,845,000	5.00%	2.73% C	5Y0
2028	$37,795,000	5.00%	2.80% C	5R5
2029	$37,695,000	5.00%	2.87% C	5Z7
2029	$2,020,000	3.25%	3.30%	5S3
2030	$41,735,000	5.00%	2.92% C	5T1
2031	$23,750,000	4.00%	3.30% C	5U8
2031	$20,000,000	5.00%	2.97% C	6N3
2032	$25,740,000	4.00%	3.35% C	5V6
2032	$20,000,000	5.00%	3.02% C	6K9
2033	$27,815,000	4.00%	3.40% C	5W4
2033	$20,000,000	5.00%	3.05% C	6L7
2034	$7,890,000	3.50%	3.55%	5X2
2034	$20,000,000	5.00%	3.08% C	6A1
2034	$22,060,000	4.00%	3.43% C	6M5

 CUSIP numbers are provided for convenience of reference only. Neither the State nor the Underwriters take any responsibility for the accuracy of such numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

C Priced to first optional call date of August 1, 2024 at 100%.

$209,015,000 GENERAL OBLIGATION REFUNDING BONDS OF 2014, SERIES EP
Dated: Date of Delivery
Due: August 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)†
2019	$21,790,000	5.00%	1.21%	6P8
2020	$22,905,000	5.00%	1.60%	6Q6
2021	$24,080,000	5.00%	1.88%	6R4
2022	$25,315,000	5.00%	2.12%	6S2
2023	$26,615,000	5.00%	2.32%	6T0
2024	$27,980,000	5.00%	2.41%	6U7
2025	$29,410,000	5.00%	2.55% [C]	6V5
2026	$30,920,000	5.00%	2.66% [C]	6W3

$25,000,000 TAXABLE GENERAL OBLIGATION BONDS OF 2014, SERIES EQ
Dated: Date of Delivery
Due: August 1, as shown below

Due	Principal Amount	Interest Rate	Price	CUSIP Number (419791)†
2019	$1,230,000	2.035%	100%	4M7
2020	$1,260,000	2.368%	100%	4N5
2021	$1,290,000	2.648%	100%	4P0
2022	$1,325,000	2.787%	100%	4Q8
2023	$1,365,000	2.957%	100%	4R6
2024	$1,405,000	3.107%	100%	4S4
2025	$1,450,000	3.257%	100%	4T2
2026	$1,500,000	3.357%	100%	4U9
2027	$1,555,000	3.507%	100%	4V7
2028	$1,610,000	3.537%	100%	4W5
2029	$1,665,000	3.637%	100%	4X3
2030	$1,730,000	3.715%	100%	4Y1
2031	$1,795,000	3.765%	100%	4Z8
2032	$1,865,000	3.815%	100%	5A2
2033	$1,940,000	3.865%	100%	5B0
2034	$2,015,000	3.915%	100%	5C8

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for convenience of reference only. Neither the State nor the Underwriters take any responsibility for the accuracy of such numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

[C] Priced to first optional call date of August 1, 2024 at 100%.

$5,880,000 TAXABLE GENERAL OBLIGATION REFUNDING BONDS OF 2014, SERIES ER
Dated: Date of Delivery
Due: August 1, as shown below

Due	Principal Amount	Interest Rate	Price	CUSIP Number (419791)†
2015	$5,880,000	0.180%	100%	5D6

$193,880,000 TAXABLE GENERAL OBLIGATION REFUNDING BONDS OF 2014, SERIES ES
Dated: Date of Delivery
Due: August 1, as shown below

Due	Principal Amount	Interest Rate	Price	CUSIP Number (419791)†
2016	$96,465,000	0.731%	100%	5E4
2017	$97,415,000	1.231%	100%	5F1

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for convenience of reference only. Neither the State nor the Underwriters take any responsibility for the accuracy of such numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

Neil Abercrombie*
Governor

Shan Tsutsui
Lieutenant Governor

Kalbert K. Young
Director of Finance

David M. Louie
Attorney General

Dean H. Seki
Comptroller

BOND COUNSEL TO STATE

Orrick, Herrington & Sutcliffe LLP

* Governor Abercrombie's term of office ends on December 1, 2014 at 11:59 a.m. Hawaii Standard Time. The terms of all cabinet officers are co-terminus with that of Governor Abercrombie.

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This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. 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.

Certain information contained in this Official Statement has been provided by the State of Hawaii. Certain other information contained herein has been obtained by the State of Hawaii from sources believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder at any time shall create any implication that the information contained herein is correct as of any time subsequent to its date. 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. In making an investment decision, investors must rely on their own examination of the State of Hawaii and the terms of the offering, including the merits and risks involved.

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. THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION ("SEC") OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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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$25,000,000 **Taxable General Obligation Bonds** **of 2014, Series EQ**	**$5,880,000** **Taxable General Obligation Refunding** **Bonds of 2014, Series ER**	**$193,880,000** **Taxable General Obligation Refunding** **Bonds of 2014, Series ES**

INTRODUCTION

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 $575,000,000 aggregate principal amount of General Obligation Bonds of 2014, Series EO (the "Series EO Bonds"), its $209,015,000 aggregate principal amount of General Obligation Refunding Bonds of 2014, Series EP (the "Series EP Bonds"), its $25,000,000 aggregate principal amount of Taxable General Obligation Bonds of 2014, Series EQ (the "Series EQ Bonds"), its $5,880,000 aggregate principal amount of Taxable General Obligation Refunding Bonds of 2014, Series ER (the "Series ER Bonds"), and its $193,880,000 aggregate principal amount of Taxable General Obligation Refunding Bonds of 2014, Series ES (the "Series ES Bonds", and, together with the Series EO Bonds, Series EP Bonds, Series EQ Bonds and Series ER Bonds, the "Bonds"), in connection with the sale of the Bonds by the State of Hawaii. In addition, the Series EO Bonds and the Series EP Bonds are referred to collectively herein as the "Tax Exempt 2014 Bonds."

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 EO Bonds and the Series EQ 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 for certain other public purposes, including the final payment of $29.383 million during fiscal year 2015 in connection with the Hawaiian Home Lands Settlement, as authorized by Act 122, SLH 2014, (ii) in the case of the Series EP Bonds, the Series ER Bonds and the Series ES Bonds (the "Refunding 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, and (iii) 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 Refunding Bonds, the State and U.S. 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 certain series of State of Hawaii General Obligation Bonds and General Obligation Refunding Bonds specified by the Bond Issuance Certificate (the "Refunded Bonds"). See APPENDIX I—"BONDS TO BE REFUNDED." The refundings are being undertaken to realize aggregate debt service savings. The final payment dates of the Refunded Bonds will be their respective stated maturity dates or, if earlier, designated redemption dates, as shown in APPENDIX I—"BONDS TO BE REFUNDED."

The Refunded Bonds to be redeemed will be irrevocably designated for redemption on the applicable redemption dates, and provisions will be made in the Escrow Agreement for the giving of the notices of such redemption. The Refunded Bonds may not be redeemed other than as described in APPENDIX I—"BONDS TO BE REFUNDED."

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, premium, if any, and interest on the Refunded Bonds. Immediately upon the issuance and delivery of the Refunding 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 Refunding 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: (i) to pay the principal of and interest on the Refunded Bonds of each particular series and maturity due on and prior to the stated maturity or earlier redemption date of such Refunded Bonds as described in APPENDIX I—"BONDS TO BE REFUNDED", and (ii) to redeem the Refunded Bonds of each particular series and maturity that are irrevocably called for redemption on the corresponding redemption date 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, premium, if any, and interest on 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 (the "Code"), not to exceed the applicable yield permitted by such provisions. See "VERIFICATION." If the Escrow Securities are purchased in the open market, they may be purchased from one or more of the underwriters of the Bonds shown on the cover page of this Official Statement.

THE BONDS

Details of the Bonds

The Bonds will mature serially on August 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 pages hereof, payable on February 1 and August 1 of each year, commencing August 1, 2015 (each an "interest payment date"). 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, 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 U.S. Bank National Association, as the Registrar and Paying Agent for the Bonds, to DTC, which will in turn remit such principal and interest to its Direct Participants and Indirect Participants (each as defined in Appendix H), for subsequent distribution to the Beneficial Owners (as defined in Appendix H) 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 APPENDIX H—"BOOK-ENTRY SYSTEM". If the Bonds cease to be held in 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 the Bonds

Series EO and EP Bonds. Optional Redemption**.** The Series EO Bonds and the Series EP Bonds maturing on or after August 1, 2025 will be subject to redemption prior to their stated maturities at the option of the State at any time on and after August 1, 2024, 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.

Series EQ Bonds and Series ES Bonds. Make-Whole Optional Redemption. The Series EQ Bonds and the Series ES Bonds are subject to redemption prior to their stated maturity dates at the option of the State, in whole or in part on any date, at a redemption price (the "Make-Whole Redemption Price") equal to the greater of:

(1) the issue price set forth on the cover page hereof (but not less than 100%) of the principal amount of the Series EQ Bonds or Series ES Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series EQ Bonds and the Series ES Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series EQ Bonds and the Series ES Bonds are to be redeemed, discounted to the date on which the Series EQ Bonds and the Series ES Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus (i) 15 basis points with respect to the Series EQ Bonds and (ii) 10 basis points with respect to the Series ES Bonds;

plus, in each case, accrued interest on the Series EQ Bonds or the Series ES Bonds to be redeemed to the redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular Series EQ Bond or Series ES Bonds, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days, but not more than thirty-five (35) calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series EQ Bonds and the Series ES Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Series ER Bonds. The Series ER Bonds are not subject to redemption prior to maturity.

General Redemption Provisions

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, and unless such notice is conditioned upon satisfaction of any other condition or the occurrence of any other event and such condition is not satisfied or such event has not occurred, 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.

Any notice of any optional redemption of Bonds may state that it is conditional upon receipt by the Registrar and Paying Agent of money sufficient to pay the redemption price of such Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price if any such condition so specified is not satisfied or if any such other event occurs. The State shall provide notice of any rescission or failure to meet any such condition or other such event as promptly as practicable after the failure of such condition or the occurrence of such other event, in the same manner as the notice of redemption.

For so long as the Book-Entry System is in effect with respect to the Bonds, the Registrar and Paying Agent will mail notice of redemption to DTC or its nominee or its successor. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a Beneficial Owner of a Bond of any such redemption will not affect the sufficiency or the validity of the redemption of such Bond. See APPENDIX H – "BOOK-ENTRY SYSTEM".

SECURITY FOR THE BONDS

Security Provisions

Under the Constitution and the laws of the State, the payment 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, and sufficient revenues shall be raised and provided from time to time for the purpose of payment. Amounts on deposit in the General Fund are applied to the payment of the debt service on the issued and outstanding general obligation bonds of the State, including the Bonds, as the debt service becomes due and payable.

Market Risk

There can be no assurance of continued marketability of the Bonds at current price levels. 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 as amended. 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, and under current law the State has waived its immunity to be sued in limited circumstances, including for claims against the State founded upon any State statute or upon any contract with the State (except a contract or any act of any State officer which the officer is not authorized to make or do by State law). 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, 2013. The State of Hawaii provided certain information, and obtained from other sources believed to be reliable certain other information, set forth in Appendices A and B. The Underwriters (as hereinafter defined) and their counsel and Deloitte & Touche LLP, independent auditors, 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. The State has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations, which are not expected to have a material adverse effect on the State's financial position.

Described under this heading and in Appendix E are certain other lawsuits and claims that, if ultimately resolved against the State, could have a material adverse effect on the State's financial condition or as to which the State is unable to predict the magnitude of its potential liability, if any. Such lawsuits and claims include those involving (i) the Office of Hawaiian Affairs ("OHA") and certain lands (the "Ceded Lands") transferred in 1898 by the Republic of Hawaii to the United States and in 1959, upon the State's admission to the Union, by the United States to the State (as to, among other things, whether the State may alienate Ceded Lands and extinguish claims Hawaiians assert to the Ceded Lands); (ii) the Hawaiian Home Lands Trust and the Department of Hawaiian Home Lands (as to certain alleged breaches of trust and fiduciary duties and related individual claims by beneficiaries of the Hawaiian Homes Commission Act of 1920, referred to herein as the "Individual Claims Cases" and "Nelson"); and (iii) the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") (as to the alleged rights of retirees and their dependents to health care benefits equivalent to those provided to active employees and their dependents).

The State intends to defend vigorously against all of the claims referred to in clause (i) of the second paragraph under this caption, and as such claims and related proceedings are further described in APPENDIX E–"PENDING LITIGATION—Office of Hawaiian Affairs and Ceded Lands." It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of the claims in favor of OHA and its beneficiaries could have a material adverse effect on the State's financial condition.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in Nelson referred to in clause (ii) of the second paragraph under this caption, and as such claims and related proceedings are further described in APPENDIX E–"PENDING LITIGATION—Department of Hawaiian Home Lands." 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 plaintiffs' claims in Nelson, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to the matter referred to in clause (iii) of the second paragraph under this caption, as such claims and related proceedings are further described in APPENDIX E–"PENDING LITIGATION—Hawaii Employer-Union Health Benefits Trust Fund."

TAX MATTERS

Tax Exempt 2014 Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), bond counsel to the State, 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 EO Bonds and the Series EP Bonds (the "Tax Exempt 2014 Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), and the Tax Exempt 2014 Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Tax Exempt 2014 Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Tax Exempt 2014 Bonds is less than the amount to be paid at maturity of such Tax Exempt 2014 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Tax Exempt 2014 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Tax Exempt 2014 Bonds which is excluded from gross income for federal income tax purposes and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Tax Exempt 2014 Bonds is the first price at which a substantial amount of such maturity of the Tax Exempt 2014 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Tax Exempt 2014 Bonds accrues daily over the term to maturity of such Tax Exempt 2014 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Tax Exempt 2014 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Tax Exempt 2014 Bonds. Beneficial owners of the Tax Exempt 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Tax Exempt 2014 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Tax Exempt 2014 Bonds in the original offering to the public at the first price at which a substantial amount of such Tax Exempt 2014 Bonds is sold to the public.

Tax Exempt 2014 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Tax Exempt 2014 Bonds. The State has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Tax Exempt 2014 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Tax Exempt 2014 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax Exempt 2014 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Tax Exempt 2014 Bonds may adversely affect the value of, or the tax status of interest on, the Tax Exempt 2014 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Tax Exempt 2014 Bonds is excluded from gross income for federal income tax purposes and that the Tax Exempt 2014 Bonds and the income therefrom are exempt from taxation by the State or any political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Tax Exempt 2014 Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax Exempt 2014 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. For example, Representative Dave Camp, Chair of the House Ways and Means Committee released draft legislation that would subject interest on the Tax Exempt 2014 Bonds to a federal income tax at an effective rate of 10% or more for individuals, trusts, and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on the Tax Exempt 2014 Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Tax Exempt 2014 Bonds. Prospective purchasers of the Tax Exempt 2014 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Tax Exempt 2014 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The State covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Tax Exempt 2014 Bonds ends with the issuance of the Tax Exempt 2014 Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the State or the beneficial owners regarding the tax-exempt status of the Tax Exempt 2014 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the State and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the State legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Tax Exempt 2014 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Tax Exempt 2014 Bonds, and may cause the State or the beneficial owners to incur significant expense.

Series EQ, Series ER and Series ES (Taxable) Bonds

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

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

U.S. Holders

Interest. In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, the Taxable Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Interest on the Taxable Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Taxable Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix G hereto.

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

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

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

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

Information Reporting and Backup Withholding. Payments on the Taxable Bonds generally will be subject to U.S. information reporting and "backup withholding." Under Section 3406 of the Code and applicable U.S.

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

Non-U.S. Holders

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

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

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

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

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

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

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

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix G hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Alston Hunt Floyd & Ing and Katten Muchin Rosenman LLP.

RATINGS

Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., have rated the Bonds "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

Barclays Capital Inc., Citigroup Global Markets Inc., Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC ("J.P. Morgan"), Morgan Stanley & Co. LLC, Piper Jaffray & Co., RBC Capital Markets, LLC, Stifel, Nicolaus & Company, Inc. and Wells Fargo Bank, National Association (collectively, the "Underwriters") have agreed to purchase the Bonds at an aggregate purchase price equal to the principal amount of the Bonds, plus net original issue premium of $131,187,331.85, less an aggregate underwriting discount of $2,807,088.29, which includes $798,358.29 for other costs of issuance. 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.

Citigroup Global Markets Inc., one of the Underwriters of the Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the Bonds.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Bonds that Incapital sells.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

J.P. Morgan, one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to the Dealer Agreement, (if applicable to this transaction), CS&Co. will purchase Bonds from J.P. Morgan at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

Piper Jaffray & Co., one of the Underwriters of the Bonds, and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

Wells Fargo Bank, National Association ("WFBNA"), one of the Underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

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

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

PRICING ADVISOR

The State has retained First Southwest Company (the "Pricing Advisor"), as pricing advisor with respect to the issuance of the Bonds. The Pricing Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Pricing Advisor is an independent advisory firm.

CAUTIONARY STATEMENTS REGARDING FORWARD LOOKING STATEMENTS AND PROJECTIONS 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 obligations, as described under "CONTINUING DISCLOSURE."

Certain statements set forth in this Official Statement constitute "projections" and were 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, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the State. However, this information is not fact and should not be relied upon as being necessarily indicative of future information. Neither the State's independent auditors, nor any other independent accountants, have complied, 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.

CONTINUING DISCLOSURE

The State will enter into a Continuing Disclosure Certificate (the "Disclosure Certificate") in the form set forth in Appendix F 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 with respect to its general obligation bonds and certificates of participation electronically to the Municipal Securities Rulemaking Board annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events 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 F— "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

In two instances within the past five years the State filed annual reports on a timely basis, but did not include audited financial statements or, as required by the applicable continuing disclosure certificates, when audited financial statements were not available, unaudited financial statements. In each case, a notice was filed that the audited financial statements were not available and audited financial statements were filed when they became available. In addition, the State has in certain years during the past five years: (1) failed to file notices of certain rating recalibrations with respect to its general obligation bonds in a timely manner, and (2) failed to file certain defeasance, refunding and redemption notices or failed to file them in a timely manner. The State has policies and procedures in place to enhance compliance with its continuing disclosure undertakings including the one referenced in the preceding paragraph. The State regularly updates Appendix B, which may involve adding additional financial and operating data, displaying data in a different format, or eliminating data that are no longer material.

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.

VERIFICATION

Causey, Demgen & Moore P.C. (the "Verification Agent") will verify from the information provided by J.P. Morgan the mathematical accuracy as of the date of issuance of the Bonds of (1) the computations contained in the schedules provided by J.P. Morgan to determine that the anticipated receipts from the securities and cash deposits listed in such schedules to be held in escrow will be sufficient to pay when due the principal, interest and any call premium payment requirements of the Refunded Bonds, and (2) the computations of yield on both the Escrow Securities and the Bonds contained in the schedules provided to Bond Counsel for use in its determination that the interest on the Tax Exempt 2014 Bonds is excluded from gross income for federal income tax purposes. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the principal of and interest on the Bonds will be paid as described in the schedules provided to them, or the exclusion of the interest on the Tax Exempt 2014 Bonds from gross income for federal income tax purposes.

FINANCIAL STATEMENTS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 2013, 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 (which report expresses an unmodified opinion on the financial statements). 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

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, 1,211,537 in 2000, and 1,360,301 in 2010, making the State the 40th most populous state in the Union as of 2010. 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 2010 U.S. Census, about 70.1 percent 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 Asia well as from Europe and the mainland United States. Based on the 2010 U.S. Census, approximately 38.6 percent of the State's population is of Asian descent and about 24.7 percent of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 10.0 percent 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.

No Voter Initiative and Referendum

The Hawaii State Constitution and Hawaii state law do not authorize either State-wide voter initiatives (that is, the electoral process by which a percentage of voters can propose legislation and compel a vote on it to enact such a measure) or State-wide referendum actions (that is, the process of referring a state legislative act or an important public issue to the public for their final approval by public vote). The issuance of bonds is not subject to approval by public vote.

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, including a loan program to a state property insurance program providing hurricane coverage to the general public). 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, agricultural enterprises serving important agricultural lands, 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, 2014 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, 2014, 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, 2012, 2013 and 2014 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 November 1, 2014 and on the Bonds, after exclusions therefrom permitted by the Constitution, is $687,999,746 in the fiscal year ending June 30, 2016. A summary of debt service on all general obligation bonded indebtedness of the State is set forth 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 September 30, 2014, the amount of authorized but unissued general obligation bonds (including the Series EO Bonds and the Series EQ Bonds) is $3,050,860,248. Such amount does not include general obligation refunding bonds such as the Refunding Bonds. These authorized but unissued general obligation bonds are scheduled to be issued prior to June 30, 2017.

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 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.

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 the net revenues, or net user tax receipts, or combination of both, derived from the particular undertaking, improvement or system or payments or return on security under a loan program or a loan thereunder 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, provided that mortgage recording taxes shall constitute taxes of a State property insurance program. 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 for so long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law, and (b) general obligation bonds issued for assessable public improvements to the extent reimbursements to the General Fund for 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 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)

HRS Chapter 37D 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. See "SUMMARY OF DEBT SERVICE—Certificates of Participation and 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. 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 receives the majority of its revenues from taxes, fees and other sources. 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 Special Funds. The revenues and expenditures for the last five fiscal years of the General Fund are set forth in Part I of Appendix B.

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 is 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.

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 Hawaii tax system is "basically sound." The sixth tax review commission convened on July 15, 2011 and issued its report on November 28, 2012. After reviewing Hawaii's tax structure, including how the structure fared during the Great Recession of 2008–2010 and how adequate the structure will be to meet future needs, the commission expressed concern about a possible budget gap and, as a result, one of its recommendations was the establishment of a separate commission to review and make recommendations on both revenues and expenditures.

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 State 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 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, nor a formula for calculating, any such tax refund or tax credit. General Fund balances exceeded 5% of General Fund revenues for fiscal years 2006, 2007 and 2008; as a result: (1) the 2008 Legislature passed Act 58, SLH 2008, to provide for a tax credit in the aggregate amount of approximately $1 million and (2) the 2009 Legislature passed Act 84, SLH 2009, to provide for a tax credit in the aggregate amount of approximately $1.1 million. In November 2010, Section 6 of Article VII of the State Constitution was amended to add another option to dispose of excess revenues. In addition to providing for a tax refund or tax credit, the Legislature may make a deposit into one or more funds that serve as temporary supplemental sources of funding in times of an emergency, economic downturn or unforeseen reduction in revenues, as provided by law. Act 138, SLH 2010, provided for the deposit of general funds into the Emergency and Budget Reserve Fund ("EBRF") whenever State General Fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%; however, no such transfer shall be made whenever the balance of the EBRF is equal to or more than 10% of General Fund revenues for the preceding fiscal year. Subsequent to the tax credit provided by the 2009 Legislature, no tax refund or tax credit or deposit into the EBRF has been required. Nevertheless, the Legislature enacted Act 267, SLH 2013, appropriating $50,000,000 of General Fund revenues to be deposited into the EBRF in fiscal year 2014. In fiscal years 2013 and 2014, the General Fund balance exceeded 5% of General Fund revenues for those years, but fiscal year 2014 General Fund revenues did not exceed 5% of fiscal year 2013 General Fund revenues; therefore, the 2015 Legislature will be required to provide for a tax refund or tax credit but will not be required to consider the option of making a deposit into the EBRF. (See "Emergency and Budget Revenue Fund; Tobacco Settlement; Hurricane Relief Fund" in this Appendix A.)

As part of the annual financial planning and executive budgeting process, the Department of Budget and Finance prepares a General Fund financial plan that includes projections of 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 to 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, transient accommodations taxes, insurance premium taxes and other taxes are deposited entirely or in part to the General Fund. For fiscal year 2014, these taxes represented approximately 87% of all tax revenues of the State, and approximately 88% of all General Fund revenues (as reported by the Department of Accounting and General Services ("DAGS")).

General Excise and Use Tax. The general excise tax is a tax imposed on businesses for the privilege of doing business in Hawaii, and is assessed at various percentage rates on the gross income businesses derive from activity in the State. Businesses also may need to pay the use tax on the value of tangible personal property, services, and contracting that are brought into Hawaii from anywhere outside Hawaii. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable. The general excise tax rate varies depending on the business activity; it is 0.15% on insurance commissions, 0.5% on certain activities such as wholesaling, and 4% on most activities at the consumer level. For fiscal year 2014, the general excise tax comprised approximately 46% of all General Fund revenues (as reported by DAGS). Effective January 1, 2007, the general excise and use tax was amended to provide the City and County of Honolulu a surcharge thereby increasing the general excise and use tax rate for transactions attributable to the county. The surcharge of ½ of 1% is imposed upon Oahu activities subject to the 4% General Excise and Use Taxes through 2022. The State retains, as General Fund realizations, 10% of the county surcharge collected to reimburse the State for the costs of assessment, collection and disposition of the surcharge.

Income Taxes. Net taxable income (gross income less exclusions and deductions) for both individuals and corporations is subject to State income tax. Although there are differences, Hawaii income tax law generally follows the federal Internal Revenue Code in computing the net taxable income. The individual income tax rates for married individuals, including qualifying surviving spouses, and unmarried individuals, including qualifying heads of households, range from 1.4% to 11.0% of net taxable income. New top rates of 9%, 10% and 11% were added by Act 60, SLH 2009. The new top rates are in effect for taxable years beginning after December 31, 2008 and are repealed on December 31, 2015, after which the top rate of the individual income tax reverts to its old rate of 8.25%. The income tax rates for estates and trusts range from 1.4% to 8.25%. Corporate income tax rates range from 4.4% to 6.4%.

Transient Accommodations Tax. The transient accommodations tax ("TAT") 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. The TAT rate is 9.25%, except that time share vacation rentals are taxed at 7.25%. Of the annual TAT revenues, $93 million is distributed to the counties, $33 million is distributed to the convention center enterprise special fund and $82 million is distributed to the tourism special fund. Act 174, SLH 2014, raises the allocation to the counties from $93 million to $103 million for fiscal years 2015 and 2016. Act 81, SLH 2014, reduces the annual allocation to the convention center enterprise special fund from $33 million to $26.5 million and allocates $3 million annually to the Turtle Bay conservation easement special fund, effective July 1, 2014.

Other Taxes. The General Fund receives revenues from several other taxes. The public service company tax is a tax on the gross income from the public utility business of public utilities in lieu of the general excise tax. The tax rate on the gross income of public service companies ranges from 1/2% (for sales for resale) to 8.2%. For a public utility, only the first 4% is a realization of the State, and any excess over 4% is distributed to counties that: (1) provide by ordinance for a real property tax exemption for real property used by the public utility in its public utility business and owned by the public utility, or leased by the public utility under a lease requiring the public utility to pay the taxes on the property, and (2) have not denied the exemption to the public utility. For a carrier of passengers by land between points on a scheduled route, the gross income is taxed at 5.35%, all of which is realized by the State. The estate tax is a tax on the transfer of a taxable estate and is based on the federal taxable estate, but has its own tax rate schedule, with tax rates varying from 10.0% to 15.7%. The generation skipping tax is also based on the federal taxable transfer, but has its own tax rate (currently 2.25%). The banks and financial corporations tax is a franchise tax (in lieu of net income and general excise taxes) on banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies, small business investment companies, or subsidiaries not subject to the taxes discussed above. The tax is assessed on net income for the preceding year from all sources at a rate of 7.92%. Insurance premiums tax is a tax on insurance companies (underwriters) based on premiums written in the State in lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax rates range between 0.8775% and 4.265% depending on the nature of the policy. There is also an excise tax on those who sell or use tobacco products and a gallonage tax imposed on those who sell or use liquor.

Non-tax Revenues. 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. From fiscal years 2004 to 2008 and fiscal years 2010 to 2014, non-tax revenues have averaged approximately 12% of General Fund revenues. In fiscal year 2009, however, non-tax revenues were approximately 16% of total General Fund revenues, primarily as a result of one-time revenue sources such as: (1) the transfer of $81 million from special funds that was authorized by Act 79, SLH 2009; and (2) the transfer of $104 million resulting from debt service savings and a delay in payments for retirement and health insurance premiums. In fiscal year 2011, non-tax revenues were again approximately 16% of total General Fund revenues, primarily as a result of one-time sources such as: (1) the transfer of $111 million from the Hurricane Reserve Trust Fund that was authorized by Act 62, SLH 2011, and (2) the transfer of $63 million from non-general funds that was authorized by Act 192, SLH 2010 and Act 124, SLH 2011.

Special Funds

Special Funds are used to account for revenues designated for particular purposes. Unlike the General Fund, Special Funds have legislative or other restrictions imposed upon their use. Special Funds are not a source of payment for the Bonds. Special Funds are 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 Special Funds 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.

Fuel taxes, motor vehicle taxes, rental motor vehicle and tour vehicle surcharge taxes and unemployment insurance taxes are deposited into Special Funds. In addition, portions of the tobacco taxes, transient accommodations taxes, environmental response, energy, and food security taxes, and conveyance taxes are deposited into Special Funds (and portions of these taxes are deposited into the General Fund). In fiscal year 2014, taxes deposited into Special Funds were approximately 13% of the total tax revenues of the State (as reported by

DAGS). 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. The State has a vehicle weight tax that varies from \$0.0175 per pound to \$0.0225 per pound, depending on the net weight of the vehicle; vehicles over ten thousand pounds net weight are taxed at a flat rate of \$300.00. 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%. 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. Act 104, SLH 2011, raised the rental motor vehicle surcharge from \$3.00 per day to \$7.50 per day and deposited \$4.50 to the General Fund, effective from July 1, 2011 to June 30, 2012. After June 30, 2012, the tax reverted to the previous rate of \$3.00 per day. Act 226, SLH 2008, established a rental motor vehicle customer facility charge of \$1.00 per day on motor vehicles rented from airport locations to pay for the development of airport rental car facilities. Act 204, SLH 2010, increased the rental motor vehicle customer facility charge to \$4.50 per day in fiscal year 2011, but collection of the charge was suspended in fiscal year 2012 during the period when the rental motor vehicle surcharge was \$7.50 per day. The rental motor vehicle customer facility charge has been restored to \$4.50 per day effective July 1, 2012. Act 110, SLH 2014 establishes a car-sharing vehicle surcharge of 25 cents per half hour (up to a maximum of \$3 per day) on motor vehicles rented by a car-sharing organization, effective January 1, 2015.

The tobacco tax currently assesses \$0.16 for each cigarette or little cigar, 70% of the wholesale price of tobacco products, and 50% of the wholesale price of each large cigar. The environmental response, energy, and food security tax is currently set at \$1.05 per barrel of petroleum product for the period from July 1, 2010 to June 30, 2030. The conveyance tax is imposed on the amount paid in the sale, lease, sublease, assignment, transfer, or conveyance of realty or any interest therein. The tax rate ranges from \$0.10 per \$100 to \$1.25 per \$100, depending on the value of the property, the type of improvements on the property and whether the purchaser is eligible for a homeowner's exemption for the property.

Federal Grants

State departments, agencies, and institutions annually receive both competitive and formula-driven federal grants. Federal grants are not a source of payment for the Bonds. Over the past five years, approximately 50% of the federal grants were awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 26% of such federal grants were 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 grants, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, accounted for about 9% of such federal receipts. Other programs accounted for the balance of such receipts. In past years, federal funds generally accounted for approximately 15% to 18% of the total State budget for each year. With the receipt of federal stimulus funds in fiscal years 2010 to 2013, the portion of the State budget made up by federal funds increased to 23% in fiscal year 2010 and 20% in fiscal year 2011 and has been approximately 18% of the State budget since then. The federal budget sequestration has not had a material adverse effect on the amount or timing of federal grants to the State.

In July 2013, the Office of Federal Award Management ("OFAM") was established in the Department of Budget and Finance. The purpose of OFAM is to: (1) develop and implement a Federal Award Accountability System ("FAAS") to structure and document the State's federal award process and provide a consistent and uniform set of policies and procedures for State recipients of federal funds; (2) develop and implement policies and procedures to be able to produce quarterly financial reports on federal awards directly from the State's accounting system; (3) provide information on the use of federal funds by State entities on a public website; and (4) prepare for the implementation of a new State financial accounting and management system that will include a federal awards management system. 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)
2005	$1,830.6
2006	1,877.4
2007	2,009.8
2008	1,999.0
2009	2,294.2
2010	2,845.0*
2011	3,114.4*
2012	2,573.3*
2013	2,449.6*
2014	2,665.6*

* Includes $367.7 million in fiscal year 2010, $506.7 million in fiscal year 2011, $158.0 million in fiscal year 2012, $62.9 million in fiscal year 2013 and $35.3 million in fiscal year 2014 from federal stimulus funds (note: amounts for federal stimulus funds do not include University of Hawaii).

Source: State of Hawaii—Department of Accounting and General Services' FAMIS report MBP455, Comparison of Receipts by Department (includes federal grants deposited to the General Fund and Special Funds).

According to OFAM, as of June 30, 2013, the State of Hawaii has been awarded a cumulative amount of $1,771,627,660 in federal stimulus aid through formula and competitive grants, including $560,364,097 in Federal Medical Assistance Percentage funds, $192,178,168 in State Fiscal Stabilization Funds and $286,402,176 for infrastructure improvements.

Budget System; Legislative Procedure

Pursuant to Act 185, the Executive Budget Act of 1970, the Planning, Programming and Budgeting System of the State was adopted. The purpose of this act was 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 timeframe 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 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 submits 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, has 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 has 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 becomes 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 becomes law on the forty fifth day unless the Governor by proclamation has 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 fails 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 must be presented again to the Governor, but becomes law only if the Governor signs it within ten days after presentation.

Emergency and Budget Reserve Fund; Tobacco Settlement; Hurricane Relief Fund

Emergency and Budget Reserve Fund. HRS Chapter 328L, 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 Fund ("EBRF"), a special fund for emergency and "rainy day" purposes. Deposits to the EBRF include appropriations made by the Legislature and a portion of the tobacco settlement moneys. In addition, Act 138, SLH 2010, provided that whenever State General Fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5%, 5% of the State General Fund balance at the end of the fiscal year shall be deposited into the EBRF; however, no such transfer shall be made whenever the balance of EBRF is equal to or more than 10% of General Fund revenues for the preceding fiscal year. The State Constitution (Article VII, Section 6) also requires that the General Fund balance at the close of each of two successive fiscal years must exceed 5% of General Fund revenues for each of the two fiscal years before a deposit into an emergency fund is required. Thus far, no such deposits into the EBRF have been required and no such deposit will be required in fiscal year 2015. Pursuant to Act 138, SLH 2010, all interest earned from moneys in the EBRF is credited to the EBRF; previously, the interest had been credited to the General Fund. Appropriations from the EBRF require a two thirds majority vote of each house of the Legislature. The table below provides EBRF balances as of the end of each fiscal year from 2005 through 2014. See also "GENERAL INFORMATION ABOUT THE STATE OF HAWAII TAX STRUCTURE: GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL – General Fund" in Appendix A.

Emergency and Budget Reserve Fund Balances
(Fiscal Years Ended June 30, 2005-2014)

Fiscal Year	$ (Millions)
2005	54.1
2006	53.5
2007	61.5
2008	74.0
2009	60.4
2010	62.5
2011	9.7[(1)]
2012	24.2[(2)]
2013	24.2[(3)]
2014	83.2[(4)]

Source: Department of Accounting and General Services.

[(1)] In fiscal year 2011, the fund balance decreased because a total of $59.6 million was transferred out of the EBRF pursuant to Act 191, SLH 2010 (as amended by Act 25, SLH 2011) and Act 30, SLH 2011, to maintain levels of programs determined to be essential to education, public health and public welfare, and to cover a shortfall in public welfare programs.

[(2)] In fiscal year 2012, the fund balance increased because a total of $15.7 million of unspent funds was returned to the EBRF while $1.1 million was transferred out of the fund pursuant to Act 191, SLH 2010. Pursuant to Act 124, SLH 2011, no tobacco settlement moneys were deposited into the EBRF in fiscal year 2012.

[(3)] In fiscal year 2013, the fund balance did not change. Pursuant to Act 124, SLH 2011, no tobacco settlement moneys were deposited into the EBRF in fiscal year 2013.

[(4)]In fiscal year 2014, the fund balance increased because $50 million of general funds was appropriated to the EBRF by Act 267, SLH 2013, and $7.5 million was deposited into the EBRF from tobacco settlement moneys.

Tobacco Settlement. 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 million to $63 million a year for the next 25 years, for a total of $1.3 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 and a special fund assessment is deducted. In fiscal year 2012, the balance was distributed as follows: 25% to the Department of Health, 28% to the University of Hawaii, and 47% to the State General Fund. Pursuant to Act 124, SLH 2011, the EBRF's portion of the tobacco settlement moneys was temporarily diverted to the General Fund in fiscal years 2012 and 2013. As such, no tobacco settlement moneys were deposited to the EBRF in fiscal year 2012 and 2013. In fiscal year 2014, the distribution was: 15% to the EBRF, 25% to the Department of Health, 6.5% to the Hawaii tobacco prevention and control trust fund, 27% to the University of Hawaii, and 26.5% to the State General Fund. In fiscal year 2015, distributions will remain the same as fiscal year 2014, except for the distribution to the University of Hawaii which will change from 27% to 26% and for the distribution to the State General Fund which will change from 26.5% to 27.5%.

The following table shows annual proceeds from the tobacco settlement for fiscal years 2005 through 2014.

Tobacco Settlement Proceeds
(Fiscal Years Ended June 30, 2005-2014)

Fiscal Year	$ (Millions)
2005	38.8
2006	34.9
2007	36.6
2008	56.1
2009	60.0
2010	50.9
2011	47.7
2012	48.2
2013	48.6
2014	52.7

Source: Department of Health.

Hawaii Hurricane Relief Fund. The Hawaii Hurricane Relief Fund ("HHRF") was established pursuant to Act 339, SLH 1993, (codified as Chapter 431P, HRS) to provide hurricane insurance coverage for Hawaii property owners should the private market prove unreliable. It was created to address the problem of private insurers leaving the hurricane insurance market following Hurricane Iniki in September 1992. As of January 1, 1999, the HHRF provided hurricane coverage for approximately 155,000 policyholders statewide. The HHRF ceased operations in 2002 when private insurers returned fully to the market. No policies have been issued since that time.

The HHRF's operations are funded by policyholder premiums, assessments on licensed Hawaii property and casualty insurers, a special mortgage recording fee, and a surcharge on premiums on policies issued by licensed property and casualty insurers (as necessary). As a component of the HHRF funding, the Director of Finance was authorized to issue revenue bonds and reimbursable general obligation bonds to assist the HHRF in carrying out its plan of operation. However, no revenue or reimbursable general obligation bonds were issued.

Upon ceasing operations, the HHRF's reserves, amounting to $186.7 million, were kept in the HHRF to provide working capital if reactivation of operations becomes necessary. Reactivation may be needed if a major hurricane were to strike the Hawaiian Islands in the future, and private insurers, after settling claims for that event, were to leave the hurricane insurance market again.

Section 431P 16(i), HRS, provides that upon dissolution of the HHRF, net moneys in the HHRF, after payments to any federal disaster insurance program enacted to provide insurance or reinsurance for hurricane risks are completed, revert to the General Fund. Act 179, SLH 2002, designated that interest earned from the principal of moneys in the HHRF shall be deposited into the General Fund each year that the HHRF remains in existence.

Although not formally established as a budget reserve, the HHRF has been used as a de facto budget reserve. Act 143, SLH 2010, appropriated $67.0 million from the HHRF (of which $12.4 million was not required and was subsequently returned to the HHRF) to restore public school instructional days for school year 2010-11 that were reduced as part of a cost cutting, collective bargaining agreement that furloughed public school teachers for 21 days of which 17 were instructional days. Act 62, SLH 2011, authorized the Governor to transfer in two steps the remaining balance of the HHRF to the General Fund (at that point $120.3 million) in fiscal year 2011 to maintain program levels determined to be essential for education, public health, and public welfare. In total, $111.0 million was transferred pursuant to Act 62. Act 62 also provided a statutory mechanism to repay the HHRF in fiscal years 2014 (50 percent) and 2015 (50 percent) through designation of general excise tax revenues. Act 266, SLH 2013, further accelerated the recapitalization of the HHRF by appropriating $50 million of general funds in fiscal year 2014 to the HHRF. The total amount that was deposited to the HHRF in fiscal year 2014 was $105.5 million and, as a result, the balance of the HHRF as of June 30, 2014 was $126.6 million. For fiscal year 2015, the required $55.5 million deposit from general excise taxes was completed in two increments: $25 million on September 24, 2014 and $30.5 million on September 26, 2014. As a result, the HHRF balance at the end of the fiscal year is projected to be $182.4 million.

Expenditure Control

Expenditure Ceiling. The State 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, except fiscal year 2007, have not exceeded the expenditure ceiling and projected appropriations for fiscal year 2015 are also not expected to exceed the expenditure ceiling.

The State 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 the Executive Branch of State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by Chapter 37, HRS. 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. 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, 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 5% 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 consultant contracts above $100,000 as to justification and need. 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 their own payments. 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 provides a consistent source of funding for these projects and 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. Over the years, capital improvement projects for public school facilities have generally been funded by moneys in the SEFISF that are subsequently fully capitalized through the issuance of general obligation bonds. In light of this arrangement, Act 157, SLH 2013, limits expenditures from the SEFISF to projects authorized prior to July 1, 2016 and repeals the SEFISF as of July 1, 2023, to allow the Department of Education's capital improvement projects to be funded directly with general obligation bonds.

Act 164, SLH 2011, as amended by Act 106, SLH 2012, appropriated $538.2 million for fiscal year 2012 and $296.5 million for fiscal year 2013 of general obligation bond funds to be transferred to the SEFISF. Act 134, SLH 2013 as amended by Act 122, SLH 2014, appropriated $53.0 million for fiscal year 2014 and $353.0 million for fiscal year 2015 of general obligation bond funds to be transferred to 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. HRS Chapter 89 provides for 14 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 University of Hawaii ("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.

Act 137, Session Laws of Hawaii 2013, authorized a fourteenth bargaining unit for State law enforcement officers and State and county ocean safety and water safety officers. These employees were formerly members of bargaining units 3 and 4. The employee voting structure, impasse procedures, and exclusive representative of these employees are the same as for bargaining units 3 and 4. Although the bargaining unit has been formed, these employees will continue to follow the provisions of the contracts for bargaining units 3 and 4 until the expiration of those contracts on June 30, 2015. Negotiations are ongoing for the initial contract.

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.

The status of negotiations and awards for wages and health benefits for the period from July 1, 2011 to June 30, 2017 is as follows:

Unit 1 (blue collar workers) ratified a new agreement on April 26, 2013 for the period July 2013 through June 2017. The agreement provides for 2% across-the-board increases in October and April in each of the four years of the contract.

Units 2 (blue collar supervisors), 3 (white collar workers), 4 (white collar supervisors), and 8 (University of Hawaii administrative, professional and technical staff) ratified a new agreement in April 2013 for the period July 2013 through June 2015, providing the following provisions: for Unit 2, a 4% increase in the first year and a 2% increase and up to two step movements ($1,000 lump sum payment for those on the top step) in the second year; Unit 3 and Unit 4, a step movement in the first year ($1,500 lump sum payment for those not on the salary schedule) and a 4% increase in the second year; and Unit 8, a 4% increase in the first year and two step movements in the second year (2% lump sum for those on the second step from the top and a 4% lump sum for those on the top step). Negotiations are ongoing for these units for the periods beyond June 30, 2015.

Unit 5 (teachers) ratified a new agreement on April 17, 2013 for the period July 1, 2013 through June 30, 2017. The contract provides for step movements in the first and third years of the contract ($1,500 lump sum for teachers on the top step) and 3.2% across-the-board increases in the second and fourth years. The contract also provides for the parties to meet and bargain not less than ninety days before the 2015 legislative session on whether salaries and other compensation should be increased. Negotiations regarding this matter are ongoing.

Unit 6 (educational officers) is subject to mandatory binding arbitration. An arbitration award was issued April 17, 2014. The award covers the period July 1, 2013 through June 30, 2017. The award provides for 4.5% across-the-board increases in July of each year of the contract. The award institutes a new ninety day cap on leave for principals and provides for payout of the resulting excess balances.

Unit 7 (University of Hawaii Professional Assembly ("UHPA")) reached a six-year agreement in January 2010 for the period July 2009 through June 2015, that provided a 6.7% salary reduction beginning January 2010 through June 2011. A payroll lag was implemented beginning with the June 30, 2010 payday. The fourth, fifth, and sixth years of the agreement provide for lump sum payments equivalent to the reductions in the first two years of the contract, and the fifth and sixth years of the agreement provide for additional 3% increases in each year. Minimum annual salaries are also established which are adjusted in the first, third, fourth and fifth years of the contract. The overall impact of the salary minimums and across-the-board increases is an approximate 6.6% increase going forward. A tentative agreement was ratified on August 25, 2014 by UHPA members for the period July 2015 through June 2017. The agreement is subject to approval by the State Legislature.

Unit 9 (registered nurses) is subject to mandatory binding arbitration. A new agreement for the period July 1, 2013 through June 30, 2015 was ratified February 27, 2014. The agreement provides for a catch-up on the step movement plan January 1, 2014 and continuation of the step movement plan throughout the remainder of the contract. The agreement also provides across-the-board increases of 4% in January 2014 and 4.3% in July 2014. Negotiations are ongoing for the periods beyond June 30, 2015.

Unit 10 (institutional health and correctional workers) is subject to mandatory binding arbitration A new agreement for the period July 2013 through June 2017 was ratified on September 25, 2013. The agreement provides for a step movement and 4% lump sum payments for those on the top of the salary schedule in each year of the contract and across-the-board increases of 0.3% in fiscal year 2014, 0.5% in fiscal year 2015, 0.5% in fiscal year 2016 and 1.0% in fiscal year 2017.

Unit 11 (firefighters) is subject to mandatory binding arbitration. An arbitration award was issued November 15, 2013. The award covers the period July 1, 2011 through June 30, 2017. The award provides for the addition of a new step L5 for twenty-five years of service and a catch-up on the step movement plan January 1, 2014 with continuation of the step movement plan throughout the remainder of the contract. The award also provides for 2% across-the-board increases in July and January of years three through five of the contract and a final 5% across-the-board increase in July 2016. Other significant terms in the contract included a new provision for rank-for-rank recall pay. The contract allows either party to re-open up to four sections of the contract. Notice must be given between January 1, 2015 and January 31, 2015.

Unit 13 (professional and scientific employees) ratified a new agreement with the State on October 4, 2013 for the period July 2013 through June 2017. The agreement provides for a 4% across-the-board increase in July 2013 and catch-up step movements beginning in July of 2014. The last two years of the agreement provide for 3.5% across-the-board increases in January of each year and continuation of the step movement plan.

State Employees' Health Benefits

The State has recently enacted measures to reduce significantly the State's actuarial accrued liability for unfunded Other Post Employment Benefit ("OPEB"). As described below, the State is taking measures to prefund OPEB liabilities.

Act 88, SLH 2001, Relating to Public Employees Health Benefits (partially codified as HRS Chapter 87A), 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 HRS Chapter 89C, or by way of applicable public sector collective bargaining agreements. Except for reimbursement of 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 HRS Chapter 87A.

Act 245, SLH 2005 (partially codified as HRS Chapter 87D), temporarily authorized 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 was to provide health benefits to State and county employees who retired after establishment of the VEBA trust ("future retirees") and was 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 were to be established by collective bargaining. Monthly contributions to each VEBA trust for existing retirees were to be equal to the contributions paid on behalf of similarly situated retirees under the Trust Fund. The stated purpose of Act 245 was 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 ("HSTA") 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. Act 5, First Special Session 2008, amended Act 245, SLH 2005, to extend the sunset date to July 1, 2010. Act 106, SLH 2010, amended Act 245, SLH 2005, to provide a final extension of the sunset date to December 31, 2010, to allow for a smoother transition from the HSTA VEBA trust to the Trust Fund. In September 2010, two participants in the HSTA VEBA trust and the trustees of the HSTA VEBA trust ("plaintiffs") filed a purported class action lawsuit seeking, in part, to enjoin the transition from the HSTA VEBA trust to the Trust Fund. See Gail Kono, et al. v. Neil Abercrombie, et al, Civil No. 10 1 1966 09, First Circuit Court, State of Hawaii. On December 7, 2010, the First Circuit Court ("circuit court") denied the plaintiffs' motion for a temporary injunction to enjoin the transition of active employees and retirees from the HSTA VEBA trust to the Trust Fund. However, the circuit court ruled that the Trust Fund was required to provide the active employees and retirees who transitioned from the HSTA VEBA trust to the Trust Fund with the same standard of coverage benefits that they had in their HSTA VEBA trust health benefits plans. The circuit court also ruled that approximately $3.96 million in surplus funds that the HSTA VEBA trust returned to the State's General Fund should be paid by the State to the Trust Fund and used to ensure that active employees and retirees who transitioned from the HSTA VEBA trust to the Trust Fund can maintain their same standard of coverage benefits as ordered by the circuit court. Based on these rulings, the active employees and retirees in the HSTA VEBA trust were transitioned to the Trust Fund, effective January 1, 2011. A final judgment was entered on the circuit court's rulings and both the State and plaintiffs have filed appeals. On April 24, 2013, the Intermediate Court of Appeals (the "ICA") issued a memorandum opinion vacating the final judgment and several related orders. The ICA said the circuit court lacked authority to render the final judgment in the absence of an appropriate pending motion from either party. When the final judgment was entered, the ICA said there was no pending dispositive motion on which the circuit court could terminate the litigation. The ICA remanded the case to the circuit court for further proceedings. The ICA left standing the order that requires the Trust Fund to provide active employees and retirees who transitioned from the HSTA VEBA trust to the Trust Fund with the same standard of coverage benefits that they had in their former HSTA VEBA trust health benefits plans and that required the State to pay the surplus funds returned by the HSTA VEBA trust to the Trust Fund. The State intends to continue to vigorously defend against Plaintiffs' claim in this lawsuit. The outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the years ended June 30, 2013 and 2014.

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 (i.e., "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 was implemented by the employers for fiscal year ending June 30, 2008 and for the County of Kauai for fiscal year ending June 30, 2009. On July 9, 2012, Act 304, SLH 2012 was signed into law and provided for the establishment of "a separate trust fund for the purpose of receiving employer contributions that will prefund other post-employment health and other benefit plan costs for retirees and their beneficiaries." Effective June 30, 2013, the Board approved the Plan and Trust Agreement for Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits ("OPEB Trust") establishing the irrevocable trust whose assets are legally protected from creditors and can only be used for the benefit of participants' other post-employment benefits. The OPEB Trust is set up as an agent multiple-employer plan. Funds are pooled together but employer contributions; related investment income, investment expenses and gains/losses; and distributions are recorded separately by employer.

The State has received the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") July 1, 2013 Actuarial Valuation Study (the "Trust Fund Report") of the Trust Fund's OPEB liabilities. The Trust Fund Report was prepared by the State's professional actuarial advisors, Gabriel Roeder Smith & Company. The Trust Fund Report quantifies the Actuarial Accrued Liabilities ("AAL") of the respective employers under GASB 45 and develops 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 beginning July 1, 2014.

The Trust Fund Report provides, based on stated actuarial assumptions, costs with prefunding of the ARC and a discount rate of 7%. The Trust Fund Report states that the State's AAL as of July 1, 2013 is $8,529.5 million, and the corresponding ARC for the fiscal year ending June 30, 2015 would be $717.7 million. The estimated Trust Fund pay as you go funding amount for fiscal year ending June 30, 2015 will be $302.7 million. The Trust Fund Report is updated every two years.

The State had previously received the EUTF July 1, 2011 Actuarial Valuation Study from the State's previous professional actuarial advisors, Aon Hewitt ("Aon's Trust Fund Report"). The Aon Trust Fund Report provided, based on stated actuarial assumptions, costs with no prefunding of the ARC and a discount rate of 4%. The Aon Trust Fund Report stated that the State's ARC for the fiscal year ending June 30, 2014 would be $1,038.4 million. The estimated Trust Fund pay as you go funding amount for the fiscal year ending June 30, 2014 was $343.0 million.

In the past, the State funded its OPEB costs on a "pay as you go" basis; however, the State has begun the process of pre-funding OPEB with appropriations authorized by Act 134, SLH 2013, of $100 million for fiscal year 2014 and $117.4 million for fiscal year 2015. In addition, 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 Trust Fund Report. Act 268, SLH 2013, establishes a task force to examine the unfunded liability of the EUTF, requires the EUTF to establish a separate trust fund for public employer contributions with separate accounts for each public employer (which was accomplished as described above) and requires the annual public employer contribution to be equal to the amount determined by an actuary commencing with the fiscal year 2018-2019. There is a schedule to phase in the annual required contribution as follows:

Fiscal Year	Annual Required Contribution
2014-2015	20%
2015-2016	40%
2016-2017	60%
2017-2018	80%
2018-2019	100%

If the State public employer contributions into the fund are less than the amount of the annual required contribution commencing with the fiscal year 2018-2019, general excise tax revenues will be used to supplement State public employer contribution amounts. If the county public employer contributions into the fund are less than the amount of the annual required contribution commencing with the fiscal year 2018-2019, transient accommodations tax revenues will be used to supplement county public employer contribution amounts. This statute also requires the Director of Finance to report to the Legislature on an implementation plan to have both the EUTF and the ERS jointly sharing investment information and services for the benefit of the Trust Fund.

State Employees' Retirement System

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

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

Much of the disclosure set forth in this "State Employees' Retirement System" section is based on the Report to the Board of Trustees on the 88th Annual Actuarial Valuation for the Year Ended June 30, 2013 (the "2013 Valuation Report"), which is the most recent valuation report of the System. The information presented in the 2013 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in January 2011. As described more fully under "—General Information" below, a revised benefit structure for new members was enacted through statute. In addition, future employer contribution rates were enacted through statute. This is the first valuation with new members under the new tier of benefits and member contribution rates. However, the liability for this group of employees represents just a small fraction of the total liabilities of the system. Included in the 2013 Valuation Report are projections showing the long-term impact of both the increased employer contributions and the change in benefits for employees first hired after June 30, 2012. In June 2012, the Governmental Accounting Standards Board ("GASB") voted to approve two new statements relating to the accounting and financial reporting for public employee pension plans by state and local governments. Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), is effective for reporting periods beginning after June 15, 2013. GASB 67 requires enhanced pension disclosures in notes and required supplementary information for financial reports of pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), is effective for fiscal years beginning after June 15, 2014. GASB 68 will require governments providing defined benefit pension plans to recognize pension obligations as balance sheet liabilities (as opposed to footnote disclosures), require more immediate recognition of certain changes in liabilities, require use of the entry age normal actuarial cost method (currently employed by the State Retirement System) for reporting purposes, and limit the smoothing of differences between actual and expected investment returns on pension assets. In certain cases, a lower discount rate will be required for valuing pension liabilities. In addition, employers participating in cost-sharing, multiple employer defined benefit plans will be required to report their proportionate shares of the collective net pension liability and expense for such plans.

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

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

General Information

The System began operation on January 1, 1926. The System is a cost sharing, multiple employer defined benefit pension plan. The actuarial information presented herein is provided for all employers of the System in total. The System's plan year runs from July 1 of each year through the following June 30. The System covers all regular employees of the State and each of its counties, including judges and elected officials. As it is a cost-sharing plan, the System does not allocate its liabilities among participating employers. However, the State estimates that its share of the System, based on a percentage of payroll, is approximately 75% with the remaining 25% share as the responsibility of the four counties. Although the State's employer contributions are recorded as expenses of the General Fund, 30.0% are reimbursed from various non-general funds of the State.

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

Prior to 1984, the System consisted of only a contributory plan. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan provides for reduced benefits and covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan. The minimum service required for retirement eligibility is five years of credited service under the contributory plan and ten years of credited service under the noncontributory plan. Both the contributory and noncontributory plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (the "AFC"). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971 or the three highest paid years of service, excluding the vacation payment (whichever is higher). The AFC for members hired after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new defined benefit contributory plan (the "Hybrid Plan") was established pursuant to Act 179, SLH 2004. Members in the Hybrid Plan are eligible for retirement with full benefits at age 62 with 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. Most new employees hired from July 1, 2006 were required to join the Hybrid Plan.

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

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

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

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

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

Funded Status

Based on the actuarial valuation as of June 30, 2013, the System's underfunded status has increased, compared to the prior year. However, the increase was less than anticipated due to an offsetting liability experience gain which was caused primarily by lower than expected salary increases. The unfunded actuarial accrued liability (the "UAAL") as of June 30, 2013 was $8.49 billion. The State estimates its share of the UAAL is 51.8% as an expense of the General Fund, and 22.2% to be paid from non-general funds of the State, with the remaining 26% of the UAAL to be funded by the four counties. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the amortization of the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 24.0% for police and fire employees and 16.5% for all other employees, the future contribution rates established in statute (see "—Funding Policy" below), and the new benefit tier for employees hired after June 30, 2012 the actuary has determined that the remaining amortization period is 28 years. Because this period is within 30 years (the maximum period specified by HRS Section 88-122(e)(1)), the financing objectives of the System are currently being realized. Section 88-122(e)(1) of the Hawaii Revised Statutes provides that the employer contribution rates are subject to adjustment when the funding period is in excess of 30 years. See "—Funding Policy" below for information on increases in the employer contribution rates and benefits changes.

Funding Policy

Prior to fiscal year 2006, the System was funded on an actuarial reserve basis. Actuarial valuations were prepared annually by the consulting actuary to the Board of Trustees to determine the employer contribution requirement. In earlier years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the System. Act 327, SLH 1997, amended Section 88-107, HRS, so that, beginning with the June 30, 1997 valuation, the System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, SLH 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. See "PENDING LITIGATION—Employees' Retirement System" in Appendix E attached hereto. For those two valuations, the investment earnings in excess of a 10% actuarial return was to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122, HRS, as amended by Act 147, SLH 2001), the total actuarially determined employer contribution to the pension accumulation fund was comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 29 years from July 1, 2000. The contribution requirement was determined in the aggregate for all employers in the System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation was paid during the third fiscal year following the valuation date, e.g., the contribution requirement derived from the June 30, 1998 valuation was paid into the System during the fiscal year ended June 30, 2001. The actuarial cost method used to calculate employer contributions was changed in 1997 by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions were determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the System.

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

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

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

Actuarial Methods

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

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

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

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

Actuarial Valuation

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

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

The State anticipates that as the percentage of employees hired after July 1, 2012, increases and the new funding policies impact the System, the State will be able to fully amortize the UAAL over a 28 year period. Assuming a constant employment base, the number of employees entitled to pre-2012 retirement benefits should equal the number of employees entitled to post-2012 retirement benefits in fiscal year 2021. The combination of the higher contribution policies and new benefit structure for future employees will enable the Retirement System to absorb the prior adverse experience over the 28 year term.

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

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in millions)

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

Source: The 2013 Valuation Report.
*Assumption changes and new Hybrid Plan effective June 30, 2006.
**Figures reflect assumption changes effective June 30, 2011.

The total assets of the System on a market value basis amounted to approximately $11.6 billion as of June 30, 2011, $11.3 billion as of June 30, 2012, $12.4 billion as of June 30, 2013 and $14.1 billion as of June 30, 2014 (unaudited). Actuarial certification of assets as of June 30, 2012 was $12.2 billion (See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix B hereto). The June 30, 2013 actuarial certification of assets was $12.7 billion, and its unfunded actuarial accrued liability was $8.5 billion. Since the System is a cost sharing, multiple employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties. The following table shows the normal cost as a percentage of payroll, employee contribution rate and effective employer normal cost rate for the two groups of covered employees for fiscal years 2012 and 2013:

NORMAL COST

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

Source: The 2013 Valuation Report.

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

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

Source: The 2013 Valuation Report.

The following table shows the annual required contributions, actual contributions and the percentage of actuarially required contribution that has been funded as of the last 10 valuation dates. Employer contribution rates are set prospectively by the statute and, accordingly, may be greater or less than the ARC in any given year.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

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

Source: The 2013 Valuation Report.

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

Asset Allocation

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

ASSET ALLOCATION
(as of June 30, 2013)

Asset Type	Actual Allocation Amount ($mm)	Actual Allocation Percentage	Target Allocation Amount ($mm)	Target Allocation Percentage	Allocation Difference
Domestic Equity	$4,389.2	35.4%	$3,715.9	30.0%	5.4%
Non-US Equity	2,948.9	23.8%	3,220.5	26.0%	-2.2%
Fixed Income	2,268.2	18.3%	2,477.3	20.0%	-1.7%
Real Estate	922.8	7.5%	867.0	7.0%	0.4%
Private Equity	464.9	3.8%	867.0	7.0%	-3.2%
Real Return	574.2	4.6%	619.3	5.0%	-0.4%
Covered Calls	582.9	4.7%	619.3	5.0%	-0.3%
Other	235.2	1.9%	0.0	0.0%	1.9%
Total	**$12,386.3**	**100.0%**	**$12,386.3**	**100.0%**	

Source: Valuations provided by BNY Mellon – 2013; values unaudited.

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

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" from "Table 1" through "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") Third Quarter 2014 Quarterly Statistical and Economic Report ("QSER") or from other materials prepared by DBEDT, some of which may be found at http://dbedt.hawaii.gov/. 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 for calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." The following descriptions of the various components of the State's economy and DBEDT's outlook for the economy are below under "State of the Economy" and there is a brief description in the "Outlook for the Economy" section below explaining the impact of these components on the State's fiscal position.

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 2014 is 4.4 percent. In real terms (adjusting for inflation), DBEDT estimates that the 2014 State's GDP growth to be 2.6 percent over that of the previous year.

State of the Economy

Hawaii's major economic indicators were mixed in the second quarter of 2014. State general fund tax revenues and Government contracts awarded decreased. However, visitor arrivals, average daily visitor census, visitor expenditures, wage and salary jobs, personal income, and private building permits increased in the quarter as compared to the same quarter of 2013.

After seventeen quarters of positive growth from the third quarter of 2009 to the third quarter of 2013, Hawaii's tourism sector experienced two quarters of negative growth from the fourth quarter of 2013 to the first quarter of 2014. In the second quarter of 2014; however, Hawaii's tourism sector returned to a positive 1.5 percent growth compared with the same quarter in 2013. The decrease in domestic visitor arrivals was more than offset by the increase in international visitor arrivals in the quarter. Due to shorter lengths of stay, the increase in the daily visitor census was less than the increase in visitor arrivals. Since visitors spent more on a daily basis during the second quarter, total visitor spending by air increased 3.0 percent in the quarter.

In construction, the government contracts awarded decreased, but the value of private building permits and State government capital improvement project ("CIP") expenditures increased. In the second quarter of 2014, government contracts awarded decreased $79.7 million; but the permit value for private construction increased $92.4 million, the State CIP expenditures increased $78.3 million. The construction sector lost 400 jobs compared with the same quarter of 2013. According to the most recent data available, current construction put-in-place based on excise tax data decreased $115.3 million or 6.2 percent in the first quarter of 2014 compared with the same quarter of 2013.

In the second quarter of 2014, State General Fund tax revenues were down $86.8 million or 5.5 percent over the same period of 2013. As an indicator of current economic activity, state general excise tax revenue decreased $15.9 million or 2.1 percent in the second quarter of 2014 compared to the same quarter in 2013. For the first half of 2014, State general fund tax revenues decreased $82.1 million or 2.9 percent, and state general excise tax revenue decreased $27.1 million or 1.8 percent, compared with the same period last year.

The labor market conditions were positive. After ten consecutive quarterly decreases in jobs from the second quarter of 2008 to the third quarter of 2010, Hawaii's jobs increased for the 15th quarter. In the second quarter of 2014 Hawaii's civilian non-agricultural wage and salary jobs averaged 622,850 jobs, an increase of 5,800 jobs or 0.9 percent from the same quarter of 2013.

The second quarter of 2014 reflects job increases in both the private sector, especially visitor-related industries, and the government sector. In this quarter, the private sector added about 4,650 non-agricultural jobs compared to the second quarter of 2013. Jobs increased the most in Food Services and Drinking Places, adding 1,450 jobs or 2.4 percent; followed by Professional & Business Services, adding 1,350 jobs or 1.7 percent, and Accommodation, adding 450 jobs or 1.2 percent. Manufacturing, Financial Activities, and Transportation, Warehousing & Utilities each adding 400 jobs in the quarter. In this quarter, Construction lost 400 jobs, Retail Trade lost 200 jobs, and Other Services lost 100 jobs compared to the same quarter of 2013. During the second quarter of 2014, the three levels of government added 1,150 jobs or 0.9 percent compared to the same quarter of 2013, specifically, the Federal Government lost 800 jobs; the State Government added 1,950 jobs, while the Local Government jobs remained the same.

The most recent data from the U.S. Bureau of Economic Analysis (BEA) shows that Hawaii's total nominal annualized personal income in the first quarter of 2014 increased $2,475.6 million or 3.9 percent from the same quarter of 2013. This increase includes inflation so that the growth of real personal income was smaller. The increase in nominal personal income during the first quarter of 2014 was due to increases in all major components of personal income. In dollar terms, the largest increases occurred in wage and salary disbursements, followed by dividends, interest, and rent, personal current transfer receipts, supplements to wage and salaries, which include retirement and unemployment insurance benefits, and proprietors' income. In 2013, total annualized personal income was $64,139.3 million, an increase of 2.9 percent from the previous year.

Consumer prices in Honolulu increased 1.1 percent in the first half of 2014 compared with the same period of 2013, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 1.7 percent in the first half of 2014. In 2013, the Honolulu CPI-U increased 1.8 percent from the previous year. In the first half of 2014, the Honolulu CPI-U increased the most in the price index of Education and Communication (2.7 percent), followed by Recreation (2.5 percent), Transportation (2.1 percent), Medical Care (1.4 percent), Food & Beverages (1.0 percent), Housing (0.9 percent), and Other Goods and Services (0.8 percent). The price of Apparel decreased 5.9 percent, compared to the first half of 2013.

Outlook for the Economy

Based on the most recent development in the national and global economy, the performance of Hawaii's tourism industry, the labor market conditions, and growth of personal income and tax revenues, Hawaii's economy is expected to continue positive growth for the rest of 2014 and into 2015. Overall, the current DBEDT forecast remains optimistic.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. According to the August 2014 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 2.1 percent in 2014 as a whole, 0.3 of a percentage point lower than the 2.4 percent growth rate projected in the May 2014 forecast. For 2015 the consensus forecast now expects an overall 3.0 percent growth in U.S. real GDP, same as the May 2014 forecast.

According to the August 2014 Blue Chip Economic Consensus Forecasts, real GDP growth for Japan is now expected to increase 1.4 percent in 2014, 0.1 of a percentage point higher than the 1.3 percent growth rate projected in the May 2014 forecast. For 2015, the consensus forecast now expects an overall 1.3 percent growth in Japanese real GDP, same as the May 2014 forecast.

For the local economy, DBEDT expects some of the economic indicators will grow at a faster rate and others will grow at slower rate than that of the previous forecast.

Overall, Hawaii's economy measured by real GDP is projected to show a 2.6 percent increase in 2014, 0.2 of a percentage point higher than the growth rate forecasted last quarter. Real GDP growth in 2015 is expected at 2.2 percent, same as the growth rate forecasted last quarter.

Hawaii's unemployment rate is projected to be 4.4 percent in 2014 and 4.1 percent in 2015, slightly higher than the previous forecast.

Visitor arrivals are expected to increase 0.7 percent in 2014, same as the previous forecast. The forecast for visitor days in 2014 also remained the same at 0.8 percent. The forecast for visitor expenditure in 2014 is revised upward to 2.6 percent, from 2.3 percent growth projected in the previous forecast. For 2015, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 2.0 percent, 2.3 percent, and 3.6 percent, respectively.

The projection for non-agricultural wage and salary job growth rate in 2014 is 1.2 percent, 0.2 of a percentage point lower than the previous forecast. In 2015, jobs are projected to increase 1.5 percent, same as the previous forecast.

The Honolulu Consumer Price Index (CPI), which increased 1.8 percent in 2013, is now expected to increase 1.5 percent in 2014, 0.6 of a percentage point below the previous forecast. In 2015, the CPI is projected to increase 2.2 percent, 0.3 of a percentage point below the previous forecast.

Personal income in current dollars is now expected to increase 4.0 percent in 2014, same as the previous forecast. The real personal income is currently projected to grow 2.6 percent in 2014, 0.5 of a percentage point above the previous forecast. In 2015, current-dollar personal income and real personal income are expected to increase 4.5 percent and 2.5 percent, respectively.

Beyond 2015 the economy will be on the expansion path, with job growth expected to increase 1.4 percent in 2016 and 1.3 percent in 2017. Visitor arrivals are expected to increase 1.9 percent in 2016 and 1.8 percent in 2017. Visitor expenditures are expected to increase 4.6 percent in 2016 and 4.2 percent in 2017. Real personal income is projected to increase 2.3 percent in 2016 and 2.0 percent in 2017. The State's real GDP growth is expected to increase 2.3 percent in 2016 and 2.2 percent in 2017. Unemployment rate is expected to decrease to 3.8 percent in 2016 and 3.5 percent in 2017.

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

Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	2nd QUARTER 2013	2nd QUARTER 2014	2nd QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2013	YEAR-TO-DATE 2014	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	649,850	662,750	2.0	647,850	659,600	1.8
Civilian employed, NSA	618,650	633,000	2.3	616,550	630,050	2.2
Civilian unemployed, NSA	31,150	29,800	-4.3	31,350	29,600	-5.6
Unemployment rate, NSA (%) 1/ 2/	4.8	4.5	-0.3	4.8	4.5	-0.3
Total wage and salary jobs, NSA	623,050	629,850	1.1	620,300	628,350	1.3
Total non-agric. wage & salary jobs	617,050	622,850	0.9	614,300	621,350	1.1
Nat. Resources, Mining, Constr.	30,900	30,500	-1.3	30,500	30,400	-0.3
Manufacturing	13,350	13,750	3.0	13,400	13,600	1.5
Wholesale Trade	17,700	17,950	1.4	17,700	17,850	0.8
Retail Trade	68,850	68,650	-0.3	68,950	68,700	-0.4
Transp., Warehousing, Util.	29,250	29,650	1.4	29,100	29,550	1.5
Information	8,100	8,400	3.7	8,250	8,450	2.4
Financial Activities	27,050	27,450	1.5	26,950	27,400	1.7
Professional & Business Services	79,050	80,400	1.7	78,900	79,750	1.1
Educational Services	15,150	15,250	0.7	15,100	15,250	1.0
Health Care & Social Assistance	63,850	63,950	0.2	63,650	63,800	0.2
Arts, Entertainment & Recreation	11,850	11,950	0.8	11,700	11,850	1.3
Accommodation	38,400	38,850	1.2	38,250	38,700	1.2
Food Services & Drinking Places	60,500	61,950	2.4	60,100	61,500	2.3
Other Services	26,550	26,450	-0.4	26,450	27,050	2.3
Government	126,500	127,650	0.9	125,250	127,550	1.8
Federal	34,000	33,200	-2.4	34,050	33,250	-2.3
State	73,850	75,800	2.6	72,650	75,750	4.3
Local	18,650	18,650	0.0	18,500	18,550	0.3
Agriculture wage and salary jobs	6,000	7,000	16.7	6,000	7,000	16.7
State general fund revenues ($1,000)	1,572,300	1,485,543	-5.5	2,854,606	2,772,532	-2.9
General excise and use tax revenues	756,693	740,811	-2.1	1,514,616	1,487,535	-1.8
Income-individual	516,183	520,605	0.9	867,506	867,519	0.0
Declaration estimated taxes	260,153	200,367	-23.0	353,187	302,323	-14.4
Payment with returns	102,190	95,047	-7.0	114,637	111,035	-3.1
Withholding tax on wages	386,928	405,837	4.9	789,690	831,189	5.3
Refunds ('-' indicates relative to State)	-233,088	-180,487	-22.6	-390,008	-376,868	-3.4
Transient accommodations tax	97,645	102,269	4.7	200,308	210,817	5.2
Honolulu County Surcharge 3/	55,951	(NA)	(NA)	117,382	(NA)	(NA)
Private Building Permits ($1,000)	714,032	806,458	12.9	1,343,107	1,564,850	16.5
Residential	193,302	305,551	58.1	482,439	456,197	-5.4
Commercial & industrial	145,657	80,677	-44.6	192,555	175,556	-8.8
Additions & alterations	375,073	420,230	12.0	668,112	933,097	39.7
Visitor Days - by air	17,701,885	17,876,528	1.0	37,161,474	37,318,098	0.4
Domestic visitor days - by air	13,514,726	13,531,272	0.1	27,621,667	27,410,365	-0.8
International visitor days - by air	4,187,159	4,345,256	3.8	9,539,807	9,907,733	3.9
Visitor arrivals by air - by air	1,974,892	2,005,150	1.5	3,997,763	4,019,257	0.5
Domestic flight visitors - by air	1,399,913	1,398,914	-0.1	2,756,062	2,715,102	-1.5
International flight visitors - by air	574,979	606,236	5.4	1,241,701	1,304,155	5.0
Visitor expend. - arrivals by air ($1,000)	3,367,871	3,467,499	3.0	7,163,697	7,351,175	2.6
Hotel occupancy rates (%) 2/	74.2	74.0	-0.2	78.0	77.3	-0.7

1/ Labor force and jobs are Hawaii DLIR monthly and annual data. Quarterly averages computed by the Hawaii DBEDT.
2/ Change represents absolute change in rates rather than percentage change in rates.
3/ 0.5% added to the general excise tax to pay for O‘ahu‘s mass transit system and took effect January 1, 2007. Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.
Source: Hawaii State Department of Business, Economic Development, & Tourism <http://www.hawaii.gov/dbedt/inf>, Hawaii State Department of Labor & Industrial Relations <http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>; Hawaii State Department of Taxation <http://www.hawaii.gov/tax/a5_3txcolrpt.htm> and Hospitality Advisors, LLC.
Agricultural Statistics Service, Hawaii Field Office <http://www.nass.usda.gov/Statistics_by_State/Hawaii/Publications/Archive/>.

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII
2012 TO 2017

Economic Indicators	2012	2013	2014	2015	2016	2017
	(Actual)		(Forecast)			
Total population (thousands)	1,390	1,404	1,418	1,432	1,447	1,461
Visitor arrivals (thousands) 1/	8,029	8,174	8,231	8,391	8,548	8,706
Visitor days (thousands) 1/	74,519	74,942	75,515	77,223	78,646	80,077
Visitor expenditures (million dollars) 1/	14,365	14,521	14,898	15,430	16,133	16,805
Honolulu CPI-U (1982-84=100)	249.5	253.9	257.7	263.4	270.5	279.2
Personal income (million dollars)	62,330	64,139	66,705	69,707	73,052	76,705
Real personal income (millions of 2008$) 2/	50,245	50,794	52,137	53,430	54,661	55,772
Non-agricultural wage & salary jobs (thousands)	606.3	617.6	625.0	634.4	643.3	651.6
Civilian unemployment rate	5.8	4.7	4.4	4.1	3.8	3.5
Gross domestic product (million dollars) 3/	72,512	75,235	78,512	81,885	85,569	89,332
Real gross domestic product (millions of 2009$) 3/	68,825	70,110	71,941	73,524	75,215	76,870
Gross domestic product deflator (2009=100) 3/	105.4	107.3	109.1	111.4	113.8	116.2
Annual Percentage Change						
Total population	1.0	1.0	1.0	1.0	1.0	1.0
Visitor arrivals 1/	10.0	1.8	0.7	2.0	1.9	1.8
Visitor days 1/	8.8	0.6	0.8	2.3	1.8	1.8
Visitor expenditures 1/	17.9	1.1	2.6	3.6	4.6	4.2
Honolulu CPI-U	2.4	1.8	1.5	2.2	2.7	3.2
Personal income	3.7	2.9	4.0	4.5	4.8	5.0
Real personal income 2/	1.4	1.1	2.6	2.5	2.3	2.0
Non-agricultural wage & salary jobs	2.2	1.9	1.2	1.5	1.4	1.3
Civilian unemployment rate	-0.7	-1.1	-0.3	-0.3	-0.3	-0.3
Gross domestic product 3/	4.0	3.8	4.4	4.3	4.5	4.4
Real gross domestic product 3/	1.7	1.9	2.6	2.2	2.3	2.2
Gross domestic product deflator (2009=100) 3/	2.2	1.9	1.7	2.1	2.2	2.2

1/ Visitors who came to Hawaii by air or by cruise ship.
2/ Using personal income deflator developed by the U.S. Bureau of Economic Analysis.
3/ 2014 and later years are estimated by DBEDT, data for earlier years from U.S. Bureau of Economic Analysis.
Source: Hawaii State Department of Business, Economic Development & Tourism, August 20, 2014.

Labor Force and Jobs

Hawaii's labor market conditions continued to improve in the second quarter of 2014. Since the civilian labor force increased less than the civilian employment in the quarter, civilian unemployment rate decreased 0.3 of a percentage point in the quarter. For the 15th consecutive quarters, civilian non-agricultural wage and salary jobs increased.

In the second quarter of 2014, the civilian labor force averaged 662,750 people, an increase of 12,900 people or 2.0 percent from the same quarter of 2013. For the first half of 2014, the civilian labor force increased 11,750 people or 1.8 percent from the same period last year.

Civilian employment totaled 633,000 people in the second quarter of 2014, an increase of 14,350 people or 2.3 percent compared to the same quarter of 2013. This is the seventh quarterly increase following three consecutive quarterly decreases from the first quarter of 2012 to the third quarter of 2012. For the first half of 2014, average civilian employment increased 13,500 people or 2.2 percent from the same period last year.

In the second quarter of 2014, the number of civilian unemployed averaged 29,800, a decrease of 1,350 people or 4.3 percent from the same quarter of 2013. For the first half of 2014, the number of unemployed decreased 1,750 people or 5.6 percent from the same period last year.

The unemployment rate (not seasonally adjusted) decreased from 4.8 percent in the second quarter of 2013 to 4.5 percent in the second quarter of 2014. For the first half of 2014, the unemployment rate decreased 0.3 of a percentage point from the same period last year.

In the second quarter of 2014, Hawaii's civilian non-agricultural wage and salary jobs averaged 622,850 jobs, an increase of 5,800 jobs or 0.9 percent from the same quarter of 2013. This is the 15th consecutive quarterly increase in non-agricultural wage and salary jobs after ten consecutive quarterly decreases in jobs since the second quarter of 2008. For the first half of 2014, average non-agricultural wage and salary jobs increased 1.1 percent or 7,050 jobs from the same period last year.

The job increase in the second quarter of 2014 was due to job increases in both the private sector, especially the visitor-related industries, and the government sector. In this quarter, the private sector added about 4,650 non-agricultural jobs compared to the second quarter of 2013. Jobs increased the most in Food Services and Drinking Places, adding 1,450 jobs or 2.4 percent; followed by Professional & Business Services, adding 1,350 jobs or 1.7 percent, and Accommodation, adding 450 jobs or 1.2 percent. In addition, Manufacturing, Financial Activities, and Transportation, Warehousing & Utilities each adding 400 jobs in the quarter.

In the second quarter of 2014, in the private sector, Construction lost 400 jobs, followed by Retail Trade which lost 200 jobs and Other Services lost 100 jobs compared to the same quarter of 2013.

During the second quarter of 2014, the three levels of government added 1,150 jobs or 0.9 percent compared to the same quarter of 2013. The Federal Government lost 800 jobs or 2.4 percent; the State Government added 1,950 jobs or 2.6 percent, while Local Government jobs remained the same compared to the same quarter of 2013.

The initial liable claims for unemployment, which measures the number of people who lost jobs in Hawaii and moved to other states, increased 16.6 percent in the second quarter of 2014 compared to the same quarter of 2013. For the first half of 2014, the initial liable claims for unemployment increased 14.1 percent from the same period last year.

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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	616,300	1.2	592,450	1.4	3.9
2004	618,150	0.3	598,200	1.0	3.2
2005	627,100	1.4	609,850	1.9	2.8
2006	633,500	1.0	617,800	1.3	2.5
2007	637,250	0.6	620,100	0.4	2.7
2008	643,700	1.0	617,500	-0.4	4.1
2009	636,800	-1.1	593,300	-3.9	6.8
2010	647,250	1.6	603,650	1.7	6.7
2011	656,450	1.4	614,050	1.7	6.5
2012	649,050	-1.1	612,050	-0.3	5.7
2013	648,850	0.0	617,850	0.9	4.8
2014 1/	659,600	1.8	630,050	2.2	4.5

1/ First half of 2014.
Source: Hawaii State Department of Labor and Industrial Relations

Income and Prices

Hawaii's total personal income increased during the first quarter of 2014 over the same quarter of 2013, all major components of personal income increased in the quarter. In dollar terms, the largest increases occurred in wage and salary disbursements, followed by dividends, interest, and rent, personal current transfer receipts, supplements to wage and salaries, which include retirement and unemployment insurance benefits, and proprietors' income.

In the first quarter of 2014, total nominal annualized personal income (i.e., not adjusted for inflation) increased $2,475.6 million or 3.9 percent from the first quarter of 2013. For 2013, total annualized personal income was $64,139.3 million, for an increase of 2.9 percent from the previous year.

In the first quarter of 2014, wage and salary disbursements increased $984.9 million or 3.1 percent from the first quarter of 2013. This was the fifteenth quarterly year-over-year increase since the third quarter of 2010. In 2013, wage and salary disbursements increased 3.4 percent from the previous year.

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 $239.0 million or 2.6 percent in the first quarter of 2014 from the same quarter of 2013. In 2013, supplements to wages and salaries increased 2.1 percent from the previous year.

Proprietors' income increased $137.6 million or 3.1 percent in the first quarter of 2014 over that of 2013. In 2013, proprietors' income was up 6.5 percent from the previous year.

Dividends, interest, and rent increased $651.2 million or 4.8 percent in the first quarter of 2014 from the same quarter of 2013. In 2013, income in this category was up 4.1 percent from the previous year.

The annualized personal current transfer receipts grew by $631.1 million or 6.4 percent in the first quarter of 2014 from the same quarter of 2013. In 2013, personal current transfer receipts increased 5.2 percent over 2012.

Contributions to government social insurance, which is subtracted from total personal income, increased $168.2 million or 3.2 percent in the first quarter of 2014 compared to the first quarter of 2013. In 2013, contributions to government social insurance increased 15.8 percent from the previous year.

In the first quarter of 2014, total non-farm private sector annualized earnings increased $1,401.9 million or 3.1 percent from the first quarter of 2013. In dollar terms, the largest increase occurred in health care and social assistance, followed by construction, transportation and warehousing, administrative and waste services, management of companies, and accommodation and food services. In the private sector, only wholesale trade and educational services decreased earnings slightly in the first quarter of 2014.

During the first quarter of 2014, total government earnings increased $364.6 million or 2.5 percent from the same quarter of 2013. Earnings from the federal government increased $27.3 million or 0.3 percent in the first quarter of 2014. Earnings from the state and local governments increased $337.3 million or 5.8 percent in the quarter.

In the first half of 2014, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.1 percent from the same period in 2013, lower than the U.S. average CPI-U increase of 1.7 percent for the same period. In 2013, the Honolulu CPI-U increased 1.8 percent from the previous year. In the first half of 2014, the Honolulu CPI-U increased the most Education and Communication (2.7 percent), followed by Recreation (2.5 percent), Transportation (2.1 percent), Medical Care (1.4 percent), Food & Beverages (1.0 percent), Housing (0.9 percent), and Other Goods and Services (0.8 percent). The price of Apparel decreased 5.9 percent, compared to the first half of 2013.

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Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES

(In millions of dollars at seasonally adjusted annual rates and percent. According to NAICS classification.)

						Percentage change			
						First Quarter 2014		*Ann Aver*	
Series	*First Quarter 2013*	*Fourth Quarter 2013*	*First Quarter 2014*	*AnnAver 2012*	*AnnAver 2013*	*First Quarter 2013*	*Fourth Quarter 2013*	*2012 from 2011*	*2013 from 2012*
PERSONAL INCOME	63,306,045	64,927,929	65,781,611	62,329,613	64,139,280	3.9	1.3	3.7	2.9
Earnings By Place of Work	45,117,062	45,999,268	46,478,586	43,995,117	45,496,846	3.0	1.0	3.7	3.4
Wage and salary disbursements	31,372,602	32,027,213	32,357,476	30,609,909	31,646,309	3.1	1.0	3.7	3.4
Supplements to wages and salaries	9,354,732	9,490,823	9,593,776	9,204,693	9,398,935	2.6	1.1	2.2	2.1
Emp'er contrib. for emp'ee pension & ins. funds	6,606,101	6,704,539	6,775,592	6,538,445	6,635,368	2.6	1.1	1.4	1.5
Employer contributions for gov't social ins.	2,748,631	2,786,284	2,818,184	2,666,248	2,763,567	2.5	1.1	4.1	3.7
Proprietors' income	4,389,728	4,481,232	4,527,334	4,180,515	4,451,602	3.1	1.0	7.3	6.5
Farm proprietors' income	125,272	83,916	79,740	111,960	106,970	-36.3	-5.0	24.7	-4.5
Nonfarm proprietors' income	4,264,456	4,397,316	4,447,594	4,068,555	4,344,632	4.3	1.1	6.9	6.8
Dividends, interest, and rent	13,679,636	14,270,274	14,330,830	13,492,849	14,044,111	4.8	0.4	6.2	4.1
plus: Personal current transfer receipts	9,830,099	10,064,569	10,461,156	9,464,641	9,952,367	6.4	3.9	0.3	5.2
Social Security benefits	3,396,322	3,483,391	3,554,015	3,272,735	3,438,250	4.6	2.0	7.0	5.1
Medicare benefits	2,058,071	2,088,691	2,102,374	1,949,888	2,069,771	2.2	0.7	4.0	6.1
Medicaid 1/	1,598,279	1,724,079	2,029,295	1,470,068	1,670,304	27.0	17.7	-11.5	13.6
State unemployment insurance benefits	309,722	253,376	219,123	390,522	276,919	-29.3	-13.5	-16.4	-29.1
All other personal current transfer receipts	2,467,705	2,515,032	2,556,349	2,381,428	2,497,122	3.6	1.6	0.3	4.9
Less: Contributions for gov't social insurance	5,320,752	5,406,182	5,488,961	4,622,994	5,354,044	3.2	1.5	3.6	15.8
Personal contributions for gov't social insurance	2,572,121	2,619,898	2,670,777	1,956,746	2,590,477	3.8	1.9	2.9	32.4
Employer contributions for gov't social insurance	2,748,631	2,786,284	2,818,184	2,666,248	2,763,567	2.5	1.1	4.1	3.7
Earnings By Industry	45,117,062	45,999,268	46,478,586	43,995,117	45,496,846	3.0	1.0	3.7	3.4
Farm Earnings	274,739	237,244	234,389	258,526	258,378	-14.7	-1.2	-16.1	-0.1
Nonfarm Earnings	44,842,323	45,762,024	46,244,197	43,736,591	45,238,469	3.1	1.1	3.9	3.4
Private earnings	30,439,394	31,225,250	31,476,661	29,395,424	30,829,298	3.4	0.8	4.8	4.9
Forestry, fishing, related activities, and other 6/	63,053	68,906	68,575	56,569	64,451	8.8	-0.5	9.4	13.9
Mining	37,913	39,024	40,655	40,013	37,949	7.2	4.2	0.4	-5.2
Utilities	550,920	560,825	568,698	505,093	555,289	3.2	1.4	3.6	9.9
Construction	3,288,805	3,343,465	3,431,851	3,090,688	3,347,237	4.3	2.6	5.5	8.3
Manufacturing	812,354	832,008	835,282	789,915	814,689	2.8	0.4	1.1	3.1
Durable goods	258,073	260,242	255,777	255,788	260,664	-0.9	-1.7	-8.1	1.9
Nondurable goods	554,281	571,766	579,505	534,127	554,024	4.6	1.4	6.2	3.7
Wholesale trade	1,241,875	1,240,037	1,239,466	1,194,858	1,238,251	-0.2	0.0	3.8	3.6
Retail trade	2,726,316	2,787,199	2,757,100	2,684,005	2,756,161	1.1	-1.1	2.7	2.7
Transportation and warehousing	1,663,514	1,767,010	1,787,545	1,604,980	1,708,752	7.5	1.2	7.7	6.5
Information	686,997	712,239	720,733	684,929	703,677	4.9	1.2	2.2	2.7
Finance and insurance	1,377,754	1,361,437	1,385,773	1,351,846	1,379,458	0.6	1.8	2.5	2.0
Real estate and rental and leasing	1,385,415	1,426,342	1,426,903	1,329,729	1,408,890	3.0	0.0	6.1	6.0
Professional and technical services	2,693,975	2,709,422	2,725,560	2,593,566	2,676,364	1.2	0.6	3.4	3.2
Management of companies and enterprises	792,999	893,894	898,217	764,043	840,889	13.3	0.5	12.2	10.1
Administrative and waste services	2,007,415	2,104,020	2,113,527	1,940,603	2,051,437	5.3	0.5	5.4	5.7
Educational services	747,967	730,790	730,703	734,342	744,588	-2.3	0.0	6.1	1.4
Health care and social assistance	4,258,179	4,448,849	4,462,183	4,188,187	4,351,735	4.8	0.3	3.1	3.9
Arts, entertainment, and recreation	459,146	460,770	465,720	432,625	474,696	1.4	1.1	7.0	9.7
Accommodation and food services	3,908,832	3,975,820	4,008,891	3,726,291	3,930,098	2.6	0.8	8.5	5.5
Other services, except public administration	1,735,965	1,763,193	1,809,279	1,683,142	1,744,692	4.2	2.6	2.8	3.7
Government and government enterprises	14,402,929	14,536,774	14,767,536	14,341,167	14,409,171	2.5	1.6	2.0	0.5
Federal	8,540,303	8,468,339	8,567,615	8,485,708	8,463,777	0.3	1.2	2.3	-0.3
Federal, civilian	3,456,661	3,391,900	3,405,109	3,509,683	3,385,413	-1.5	0.4	2.0	-3.5
Military	5,083,642	5,076,439	5,162,506	4,976,025	5,078,364	1.6	1.7	2.4	2.1
State and local	5,862,626	6,068,435	6,199,921	5,855,459	5,945,394	5.8	2.2	1.6	1.5

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, June 24, 2014 <http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=3> accessed June 24, 2014.

Table 5

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

YEAR	ANNUAL AVERAGE	% CHANGE
1996	30,767	0.0
1997	31,773	3.3
1998	32,268	1.6
1999	33,238	3.0
2000	35,104	5.6
2001	36,333	3.5
2002	37,923	4.4
2003	39,804	5.0
2004	43,072	8.2
2005	46,131	7.1
2006	49,608	7.5
2007	52,684	6.2
2008	55,223	4.8
2009	55,666	0.8
2010	56,827	2.1
2011	60,095	5.8
2012	62,330	3.7
2013	64,139	2.9
2014 1/	65,782	3.9

1/ First quarter of 2014.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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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)

		Honolulu								
Period	***U.S.***	*All Items*	*Food & Beverages*	*Housing*	*Apparel*	*Transportation*	*Medical Care*	*Recreation 1/*	*Educ. & Comm. 1/*	*Other Goods & Services*
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	207.342	219.504	204.942	238.428	104.145	205.027	2/	102.572	113.967	347.499
2008	215.303	228.861	216.625	248.700	105.277	213.998	317.955	105.290	117.118	365.441
2009	214.537	230.048	224.317	249.735	112.811	200.296	321.599	105.239	122.843	395.186
2010	218.056	234.869	224.774	251.968	116.423	214.411	320.153	107.484	128.483	415.526
2011	224.939	243.622	232.656	260.606	118.394	229.223	324.180	110.473	132.248	433.536
2012	229.594	249.474	242.786	265.473	121.481	231.275	334.441	113.961	137.276	440.428
2013	232.957	253.924	250.922	269.885	119.011	233.133	345.184	116.818	139.423	447.178
2012H1	228.850	248.646	241.047	263.954	122.187	233.236	333.781	113.396	135.804	440.182
H2	230.338	250.303	244.524	266.993	120.775	229.315	335.102	114.526	138.748	440.674
2013H1	232.366	253.202	250.337	269.213	119.349	232.743	343.253	116.347	138.251	446.226
H2	233.548	254.646	251.508	270.557	118.673	233.523	347.116	117.289	140.594	448.131
2014H1	236.384	255.989	252.895	271.656	112.261	237.614	348.133	119.313	141.981	450.011
Percentage Change from the Same Period in Previous Year										
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
2008	3.8	4.3	5.7	4.3	1.1	4.4	(2/)	2.6	2.8	5.2
2009	-0.4	0.5	3.6	0.4	7.2	-6.4	1.1	0.0	4.9	8.1
2010	1.6	2.1	0.2	0.9	3.2	7.0	-0.4	2.1	4.6	5.1
2011	3.2	3.7	3.5	3.4	1.7	6.9	1.3	2.8	2.9	4.3
2012	2.1	2.4	4.4	1.9	2.6	0.9	3.2	3.2	3.8	1.6
2013	1.5	1.8	3.4	1.7	-2.0	0.8	3.2	2.5	1.6	1.5
2012H1	2.3	2.8	4.5	2.3	2.4	2.1	3.7	2.6	4.1	1.1
H2	1.8	2.0	4.2	1.5	2.9	-0.3	2.6	3.7	3.5	2.0
2013H1	1.5	1.8	3.9	2.0	-2.3	-0.2	2.8	2.6	1.8	1.4
H2	1.4	1.7	2.9	1.3	-1.7	1.8	3.6	2.4	1.3	1.7
2014H1	1.7	1.1	1.0	0.9	-5.9	2.1	1.4	2.5	2.7	0.8

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 August 19, 2014.

Tourism

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

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

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

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

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

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

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

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

According to the most recent data available, in the second quarter of 2014, the statewide hotel occupancy rate averaged 74.0 percent, 0.2 percentage points lower than that of the same quarter of 2013. In 2013, statewide hotel occupancy rate averaged 76.2 percent, 0.7 of a percentage point lower than that of the previous year.

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Table 7

VISITOR ARRIVALS BY AIR

Average Length of Stay, Visitor Days, Average Daily Census

	2010	2011	2012	2013	% Change 2010-2011	% Change 2011-2012	% Change 2012-2013
Total Arrivals							
Total	6,916,894	7,174,397	7,867,143	8,003,474	3.7	9.7	1.7
Domestic	4,957,352	5,127,291	5,403,025	5,405,300	3.4	5.4	0.0
International	1,959,542	2,047,106	2,464,118	2,598,174	4.5	20.4	5.4
Average Length of Stay							
Total	9.4	9.5	9.4	9.3	0.7	-0.6	-1.6
Domestic	10.0	10.1	10.1	10.1	0.7	-0.2	-0.1
International	7.7	7.8	7.8	7.5	0.9	-0.4	-3.1
Visitor Days							
Total	64,951,433	67,825,871	73,663,903	74,049,772	4.4	8.6	0.5
Domestic	49,788,583	51,839,799	54,492,680	54,462,717	4.1	5.1	-0.1
International	15,162,850	15,986,073	19,171,224	19,587,054	5.4	19.9	2.2
Average Daily Census							
Total	177,949	185,824	201,267	202,876	4.4	8.3	0.8
Domestic	136,407	142,027	148,887	149,213	4.1	4.8	0.2
International	41,542	43,797	52,380	53,663	5.4	19.6	2.4

Source: Hawaii Tourism Authority.

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Table 8

HOTEL OCCUPANCY RATE (%)

Year	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	***Annual Average***
In Percent					
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	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	68.8	70.5	63.8	70.4
2009	66.7	63.7	67.3	63.5	64.8
2010	70.6	67.3	75.2	69.5	70.7
2011	76.6	68.6	76.1	71.9	73.2
2012	80.3	73.8	78.9	74.5	76.9
2013 1/	82.0	74.2	77.5	72.0	76.2
2014 1/	80.8	74.0	(NA)	Year-to-Date	77.3

NA Not available.

The 2nd, 3rd, and 4th Quarter 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. The 1st quarter and Annual are as released or revised by source.

1/ Source revises each month of previous year when current year is released, i.e. 2013Q2.

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

Construction and Real Estate

The indicators of Hawaii's construction industry were mixed in the second quarter of 2014. The value of private building authorizations increased, but Government contracts awarded and construction jobs decreased in the quarter.

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

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

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

In the second quarter of 2014, the private building authorizations in Hawaii County increased $118.6 million or 103.1 percent compared with the second quarter of 2013. In the first half of 2014, private building authorizations in Hawaii County increased $132.4 million or 66.1 percent compared with the previous year.

In the second quarter of 2014, the private building authorizations in Maui decreased $70.2 million or 47.6 percent compared with the second quarter of 2013. For the first half of 2014, private building authorizations in Maui increased $47.8 million or 24.1 percent compared with the same period last year.

In the second quarter of 2014, the private building authorizations in Kauai increased $7.7 million or 38.5 percent compared with the second quarter of 2013. For the first half of 2014, private building authorizations in Kauai increased $8.0 million or 22.8 percent compared with the same period last year.

Government contracts awarded increased $79.7 million or 21.5 percent in the second quarter of 2014 compared to the same quarter of 2013. For the first half of 2014, government contracts awarded decreased $152.8 million or 25.5 percent compared with the same period last year. State Government CIP expenditures increased $78.3 million or 28.4 percent in the quarter. For the first half of 2014, CIP expenditures increased $125.9 million or 22.0 percent from the same period last year.

The Honolulu Construction Cost Indexes increased 6.1 percent for Single Family Residence and increased 6.3 percent for High-Rise Building in the second quarter of 2014 over that of 2013.

In the first half of 2014, Honolulu's median price for single family resales was $669,500, an increase of $44,500 or 7.1 percent from the first half of 2013; the median price for condominium units was $350,000, an increase of $23,250 or 7.1 percent from the first half of 2013. In the second quarter of 2014, the number of single-family unit resales was up 0.1 percent, and the number of condominium unit resales was up 0.9 percent compared with the second quarter of 2013. For the first half of 2014, the number of single-family unit resales was up 1.6 percent, and the number of condominium unit resales was up 1.3 percent compared with the same period last year.

In the second quarter of 2014, single-family unit resales decreased 7.5 percent, and condominium unit resales decreased 15.0 percent in Maui County compared to the same quarter of 2013.

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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 2/* *Total Private Authorizations*	*Residential*	*Commercial & Industrial 3/*	*Additions & Alterations*	*Government Contracts Awarded*
In Millions of Dollars						
2006	7,223.3	3,770.1	1,811.8	732.0	1,226.2	853.8
2007	8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008	7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2009	6,641.7	1,998.9	799.2	284.8	914.9	778.6
2010	5,589.8	1,980.3	779.0	377.5	823.8	1,057.6
2011	5,837.4	1,858.8	687.9	285.9	884.9	430.7
2012	7,006.1	2,643.8	837.2	271.1	1,535.5	772.9
2013	7,330.0	2,720.5	1,025.0	296.5	1,399.0	1,194.2
2012 1 Qtr.	1,561.4	556.7	145.3	61.5	349.9	71.4
2 Qtr.	1,680.8	647.3	246.6	50.6	350.1	280.6
3 Qtr.	1,858.5	686.6	200.2	75.7	410.7	323.3
4 Qtr.	1,905.5	753.2	245.1	83.3	424.8	97.5
2013 1 Qtr.	1,847.6	629.1	289.1	46.9	293.0	228.8
2 Qtr.	1,935.3	714.0	193.3	145.7	375.1	371.0
3 Qtr.	1,844.9	688.4	317.4	27.5	343.6	481.4
3 Qtr.	1,702.1	689.0	225.2	76.5	387.3	113.1
2014 1 Qtr.	1,732.3	758.4	150.6	94.9	512.9	155.7
2 Qtr.	(NA)	806.5	305.6	80.7	420.2	291.3
Percentage Change from the Same Period in Previous Year						
2006	19.9	8.0	-19.8	68.8	53.4	17.8
2007	11.8	-4.9	2.4	-3.8	-16.3	1.8
2008	-1.1	-18.9	-25.5	-39.3	7.0	9.6
2009	-16.8	-31.2	-42.2	-33.3	-16.7	-18.3
2010	-15.8	-0.9	-2.5	32.5	-10.0	35.8
2011	4.4	-6.1	-11.7	-24.3	7.4	-59.3
2012	20.0	42.2	21.7	-5.2	73.5	79.4
2013	4.6	2.9	22.4	9.4	-8.9	54.5
2012 1 Qtr.	12.9	46.2	-1.0	27.9	88.1	-5.3
2 Qtr.	16.4	47.7	38.2	7.2	64.6	345.3
3 Qtr.	26.6	27.7	-3.1	-5.6	63.8	159.6
4 Qtr.	23.5	50.1	57.0	-24.6	80.5	-41.9
2013 1 Qtr.	18.3	13.0	99.0	-23.7	-16.3	220.2
2 Qtr.	15.1	10.3	-21.6	187.8	7.1	32.2
3 Qtr.	-0.7	0.3	58.6	-63.7	-16.3	48.9
3 Qtr.	-10.7	-8.5	-8.1	-8.2	-8.8	16.0
2014 1 Qtr.	-6.2	20.6	-47.9	102.3	75.0	-31.9
2 Qtr.	(NA)	12.9	58.1	-44.6	12.0	-21.5

NA Not available.
1/ Formerly, this category was "Value of Construction Completed", subject to revision by Hawaii State Department of Taxation.
2/ Kauai County available for residential data only.
3/ Includes hotels.
Source: Hawaii State Department of Taxation; county building departments; U.S. Census Bureau, and Building Industry.

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year	*State*	*City & County of Honolulu*	*Hawaii County*	*Kauai County 1/*	*Maui County*
In Thousands of Dollars					
2006	3,770,051	1,625,328	926,019	239,294	979,412
2007	3,585,447	1,676,232	912,529	268,915	727,772
2008	2,906,578	1,481,272	704,317	277,149	443,840
2009	1,998,908	1,247,196	309,165	218,111	224,437
2010	1,980,296	1,357,314	360,328	68,047	194,607
2011	1,858,763	1,272,923	282,638	59,520	243,683
2012	2,643,840	1,769,454	427,394	79,998	366,994
2013	2,720,519	1,866,352	443,739	85,413	325,014
2012 1 Qtr.	556,688	318,047	68,366	14,463	155,812
2 Qtr.	647,291	445,237	114,845	18,931	68,278
3 Qtr.	686,626	439,663	132,026	29,694	85,243
4 Qtr.	753,236	566,507	112,158	16,910	57,661
2013 1 Qtr.	629,074	477,417	85,234	15,178	51,245
2 Qtr.	714,032	431,670	114,980	19,923	147,459
3 Qtr.	688,435	492,797	114,104	24,350	57,184
4 Qtr.	688,977	464,468	129,421	25,962	69,126
2014 1 Qtr.	758,392	474,522	99,031	15,514	169,325
2 Qtr.	806,458	468,094	233,543	27,598	77,222
Percentage Change From The Same Period in Previous Year					
2006	8.0	19.2	-8.2	-16.9	17.8
2007	-4.9	3.1	-1.5	12.4	-25.7
2008	-18.9	-11.6	-22.8	3.1	-39.0
2009	-31.2	-15.8	-56.1	-21.3	-49.4
2010	-0.9	8.8	16.5	-68.8	-13.3
2011	-6.1	-6.2	-21.6	-12.5	25.2
2012	42.2	39.0	51.2	34.4	50.6
2013	2.9	5.5	3.8	6.8	-11.4
2012 1 Qtr.	46.2	21.0	2.7	-16.0	353.6
2 Qtr.	47.7	42.1	64.4	15.8	76.0
3 Qtr.	27.7	25.0	35.0	150.8	11.6
4 Qtr.	50.1	64.1	131.6	19.9	-38.8
2013 1 Qtr.	13.0	50.1	24.7	4.9	-67.1
2 Qtr.	10.3	-3.0	0.1	5.2	116.0
3 Qtr.	0.3	12.1	-13.6	-18.0	-32.9
4 Qtr.	-8.5	-18.0	15.4	53.5	19.9
2014 1 Qtr.	20.6	-0.6	16.2	2.2	230.4
2 Qtr.	12.9	8.4	103.1	38.5	-47.6

1/ For residential only.
Source: County building departments and U.S. Census Bureau.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy. According to the most recent Bureau and Economic Analysis ("BEA") data, the total compensation of employees ("COE") of federal government employees in Hawaii was \$8.5 billion in 2013, about the same as in 2012. The total COE of combined military and civilian federal employees in Hawaii accounted for about 20.7 percent of Hawaii's total COE in 2013. Between 2003 and 2013, the annual average compounded growth rate for COE was 4.2 percent for civilian and 6.0 percent for military personnel in Hawaii. The military personnel accounted for 59.8 percent of the total Federal COE in 2013. The federal government accounted for about 13.6 percent of State GDP in Hawaii in 2012, a majority of which is defense related.

The most recent BEA data also shows that the earnings of federal government employees in the first quarter of 2014 increased 0.32 percent over the same quarter of 2013. In 2013, the earnings of federal government employees decreased 0.26 percent from the previous year.

Future levels of federal funding (including defense funding) in Hawaii are subject to potential spending cutbacks and deferrals that may be implemented to reduce the federal budget deficit, but, on the other hand, may increase to reflect the growing importance of the Asia Pacific Region. The federal budget sequestration has not had a material adverse effect on the State.

Banks and Other Financial Institutions

As of June 30, 2013, total assets of all State chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at \$35.75 billion, a 2.36% increase from June 30, 2012. The five State chartered banks accounted for \$35.27 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 2010, 2011, 2012 and 2013 amounted to 17.7 million short tons, 18.8 million short tons, 19.0 million short tons and 19.8 million short tons respectively.

The Harbors System is comprised of ten commercial 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, and Kalaeloa Barbers Point Harbor 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; and (4) Kahului Harbor and Hana 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 previously managed Kewalo Basin for its landowner, the Hawaii Community Development Authority ("HCDA"). Effective March 1, 2009, HCDA assumed management and operations of Kewalo Basin. Kewalo Basin's inclusion as a program under the Harbors System ceased on June 30, 2009. Act 200, SLH 2008, authorized the transfer of Hana Harbor on the island of Maui to the jurisdiction of the Harbors System, effective July 1, 2008.

The State uses nine harbors, with the exception of Hana Harbor, to facilitate the movement of goods from and between the mainland, foreign and inter island ports. The number of commercial vessels entering all ports was 7,832 in fiscal year 2010, 8,490 in fiscal year 2011, 7,912 in fiscal year 2012 and 6,832 in fiscal year 2013. The U.S. military moves most of its cargo through the State's Harbors System.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 8.9 million short tons in fiscal year 2010, 9.8 million short tons in 2011, 10.0 million short tons in fiscal year 2012 and 10.9 million short tons in fiscal year 2013. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan ("HMP") to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the Aloha Tower Development Corporation ("ATDC") as the entity responsible for the management and implementation of the HMP under the direction of the Department of Transportation. Act 200 authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the HMP is estimated at $618 million. ATDC's failure to obtain legislative approval for operating funds for fiscal year 2011 effectively terminated its operations on June 30, 2010. The Harbors Division assumed management and implementation responsibilities of the HMP. Act 152, SLH 2011 placed the ATDC under the Department for administrative purposes and repealed references to the HMP. The Deputy Director Harbors currently serves as the Acting Chief Executive Officer for the ATDC.

Air Transportation. The State operates and maintains 15 airports on six islands within the State of Hawaii. 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. With 52 gates for overseas and interisland flights, HNL is the most important airport in the State airports system.

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.

In fiscal year 2013, total passenger counts increased from 31,232,157 to 33,172,859 due to increased tourism traffic derived from both domestic and overseas passengers. Aircraft operations increased to 954,696 from 888,102, in fiscal year 2013 and 2012, respectively, due to the improving worldwide economy. The increases are indications of continued economic recovery as airport concession revenues have improved as well.

The Airports Division is financially self-sufficient by generating revenues from airlines, nonairline tenants, and passengers. In addition, the management of the Airports Division has continued to scrutinize and monitor its expenditures to provide a safe and efficient airport system.

The Airports Division's "New Day" modernization program is formally under way as a result of receiving the Federal Aviation Administration's approval on the final environmental assessment, finding of no significant impact and record of decision reports in 2013. It includes significant capital improvements such as expanding HNL's Inter-Island terminal, constructing consolidated car rental facilities at its major airports, and installing energy saving equipment and devices statewide. The program is currently estimated to cost $2.1 billion through 2019 and is expected to be paid for from a variety of sources including cash, grants, passenger facility charges, rental motor vehicle customer facility charges and revenue bonds. On August 22, 2013, the Airports Division held a ground breaking ceremony on the site of the new Hawaiian Airlines Maintenance and Cargo buildings. This will replace the old facilities, in order to widen the taxiway leading to the much needed expansion to the Inter-Island terminal concourse. The new concourse will add six wide-bodied and eleven narrow bodied gates to reduce peak-time traffic. The Airports Division awarded contracts for the Diamond Head commuter terminal, interim HNL consolidated rental car facility and related roadway improvements in 2014. The Airports Division expects to award contracts for the Kahului consolidated rental car facility in 2014, and permanent HNL consolidated rental car facility in 2015.

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 4,312.492 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.64 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 947.570 linear miles of roadways. The most important component of the State Highway System is the 54.90 miles of interstate system on Oahu, which includes Interstates H 1, H 2, H 3 and H 201.

The City and County of Honolulu is proceeding with plans for a new $5.3 billion, 20 mile fixed guideway mass transit system to provide rail service along Oahu's east west corridor between Kapolei and downtown Honolulu (terminating at Ala Moana Shopping Center). Construction of the project is expected to be funded with the City and County of Honolulu surcharge of ½ of 1% imposed upon Oahu activities subject to the 4% General Excise and Use Taxes and federal moneys. Construction and operation of this system is the sole responsibility of the City and County of Honolulu.

The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ending December 31, 2013.

Motor Vehicle Registration

Calendar Year	Passenger Vehicles	Ambulances & Hearses	Buses	Trucks	Motorcycles & Scooters	Trailers	Total
2004	867,120	44	2,510	179,592	20,746	28,435	1,098,447
2005	906,799	47	2,472	185,646	24,874	29,565	1,149,403
2006	907,659	46	2,349	191,230	26,024	31,789	1,157,027
2007	911,607	47	2,260	193,650	26,978	32,698	1,167,240
2008	903,518	57	2,213	193,332	28,447	33,076	1,160,643
2009	895,770	63	2,143	190,935	28,879	32,138	1,149,928
2010	898,452	64	2,103	190,025	29,436	31,601	1,151,681
2011	951,170	79	2,320	194,557	33,022	29,222	1,210,370
2012	1,033,975	91	2,621	203,323	38,223	32,053	1,310,286
2013	1,089,709	98	2,669	207,496	41,180	30,189	1,371,341

Source: Summary of Registered Vehicles, Various Years, Department of Information Technology, City & County of Honolulu.

Education

Unlike many other states, the State operates a statewide public school system for elementary, intermediate, and high schools. In addition, the States operates a statewide public system for colleges and universities. In the 2014–2015 school year, system enrollment decreased from a total of 185,930 in the 2013–2014 school year to a projected total of 182,704 in 288 K–12 public schools (includes 32 charter schools). 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.

The University of Hawaii was established in 1907 on the model of the American system of land grant universities created initially by the Morrill Act of 1862. In the 1960s and 1970s, the University was developed into a system of accessible and affordable campuses. These institutions currently include:

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

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

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

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

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

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.

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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, 2013 AND

INDEPENDENT AUDITORS' REPORT

(commences on page B-20)

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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 tables set forth the State's total indebtedness as of July 1, 2014, including reimbursable general obligation bonds excludable for the purposes of calculating the constitutional debt limit. See "DEBT STRUCTURE—Outstanding Indebtedness and Debt Limit" in Appendix A.

SUMMARY OF TOTAL INDEBTEDNESS OF THE STATE OF HAWAII

GENERAL OBLIGATION BOND INDEBTEDNESS
As of July 1, 2014

General obligation bonds outstanding		$ 5,720,580,000
Less excludable reimbursable general obligation bonds [1]		
Highways	$ 7,906,528	
Harbors	31,175,970	
University of Hawaii	555,371	
Parking facilities	49,234	
Hawaiian Home Lands	77,107	
Subtotal excludable reimbursable general obligation bonds	$ 39,764,210	
Less all general obligation bonds maturing in the current year	$ 314,399,679	$ 354,163,889
Net general obligation bonds outstanding		$ 5,366,416,111

Footnotes on following page.

REVENUE BOND INDEBTEDNESS [2]

As of July 1, 2014

Revenue bonds outstanding:		
Airports:		
Airports system	$ 843,515,000	
Airports special facility	29,130,000	$ 872,645,000
Housing:		
Single family mortgage purchase	71,334,402	
Multifamily	262,174,792	333,509,194
Harbors:		
Revenue		341,975,000
Highway:		
Revenue		353,355,000
University of Hawaii:		
Revenue		593,930,000
Hawaiian Home Lands		39,075,000
Hawaii Health Systems Corporation (Maui Regional Health Care System)		21,502,000
Total revenue bonds outstanding		$ 2,555,991,194

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS [3]

As of July 1, 2014

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$ 732,560,000
Utilities serving the general public	473,400,000
Industrial enterprises	9,812,500
Not-for-profit secondary schools, colleges and university serving the general public	69,125,000
Total special purpose revenue bonds outstanding	$ 1,284,897,500

[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.

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The following table presents a summary of the calculation of the State's constitutional debt limit as of July 1, 2014. The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2014, and on the Bonds, after exclusions permitted by the Constitution, is $655,551,824 in the fiscal year ending June 30, 2017, which is within the debt limit of $1,107,742,921.

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	**2011-2012**	**2012-2013**	**2013-2014**
Total General Fund revenues exclusive of grants from the federal government	$5,660,629,181	$6,234,438,652	$6,096,208,295
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	11,828,531	8,429,886	7,618,992
Net General Fund revenues	$5,648,800,650	$6,226,008,766	$6,088,589,303
Sum of net General Fund revenues for preceding three fiscal years	$17,963,398,719		
Average of preceding three fiscal years	$5,987,799,573		
18½% of average net General Fund revenues of the three preceding years ended June 30, 2012, 2013 and 2014	$1,107,742,921		

NOTE: This Summary Statement is based on the July 1, 2014 statement of indebtedness. See "DEBT STRUCTURE — Outstanding Indebtedness and Debt Limit" in Appendix A.

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GENERAL OBLIGATION BONDS OUTSTANDING
AS OF JULY 1, 2014

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds [1]			
From State Special Funds for			
Highways	$ 7,906,528		
Commercial Harbors	$ 31,175,970		
Small Boat Harbors [2]	$ 2,207,506		
Hawaiian Home Lands	$ 77,107		
University of Hawaii	$ 555,371		
Parking Facilities	$ 49,234		
Waiahole Water System [2]	$ 6,399,778		
Convention Center [2]	$ 221,125,289		
Total for Special Funds	$ 269,496,783		
Total Reimbursable General Obligation Bonds		$ 269,496,783	4.71%
Non Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$5,451,083,217		
Total Non-reimbursable General Obligation Bonds..		$ 5,451,083,217	95.29%
Total General Obligation Bonds Issued and Outstanding...		$ 5,720,580,000	100%

[1] See "DEBT STRUCTURE - Reimbursement to State General Fund for Debt Service" in Appendix A 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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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 October 1, 2014, including the Refunded Bonds, as well as debt service payable on the Bonds as of the expected date of delivery thereof. Further detail concerning the State's various outstanding general obligation indebtedness is set forth in Appendix D hereto.

SUMMARY OF DEBT SERVICE
As of October 1, 2014

							Debt Service on the Bonds[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	Less: Refunded Bond Debt Service[4]	Total Debt Service[5]
2015	5,650,120,000	248,775,000	212,841,791	461,616,791	31,334,500	430,282,291	0	0	10,370,288	419,912,003
2016	5,401,345,000	408,265,000	252,882,005	661,147,005	33,124,055	628,022,950	5,880,000	47,647,043	20,740,576	660,809,417
2017	4,993,080,000	427,575,000	233,549,043	661,124,043	32,728,343	628,395,700	96,465,000	39,906,415	110,937,826	653,829,289
2018	4,565,505,000	408,850,000	212,456,856	621,306,856	31,485,094	589,821,762	97,415,000	38,954,246	110,938,701	615,252,307
2019	4,156,655,000	414,835,000	194,547,721	609,382,721	30,417,121	578,965,600	0	38,354,657	11,252,326	606,067,930
2020	3,741,820,000	364,550,000	175,148,329	539,698,329	30,417,931	509,280,398	47,515,000	37,263,117	34,997,951	559,060,563
2021	3,377,270,000	317,035,000	158,679,163	475,714,163	30,420,401	445,293,762	49,785,000	34,991,083	35,002,521	495,067,324
2022	3,060,235,000	334,755,000	143,228,692	477,983,692	30,417,896	447,565,796	52,220,000	32,557,660	35,002,652	497,340,805
2023	2,725,480,000	332,235,000	127,153,165	459,388,165	30,417,213	428,970,952	54,800,000	29,975,667	34,999,080	478,747,539
2024	2,393,245,000	339,895,000	110,896,997	450,791,997	30,417,893	420,374,104	57,535,000	27,243,121	35,002,080	470,150,145
2025	2,053,350,000	315,835,000	95,611,091	411,446,091	30,422,683	381,023,408	60,410,000	24,369,213	34,999,680	430,802,941
2026	1,737,515,000	307,685,000	80,879,173	388,564,173	30,424,388	358,139,785	63,440,000	21,332,723	34,998,655	407,913,852
2027	1,429,830,000	272,105,000	65,971,896	338,076,896	28,145,958	309,930,938	66,660,000	18,114,682	35,001,750	359,703,870
2028	1,157,725,000	254,660,000	52,450,830	307,110,830	1,365,184	305,745,646	37,530,000	15,557,363	0	358,833,009
2029	903,065,000	234,445,000	39,591,103	274,036,103	428,556	273,607,547	39,405,000	13,678,673	0	326,691,221
2030	668,620,000	193,120,000	27,766,861	220,886,861	429,270	220,457,591	41,380,000	11,699,847	0	273,537,439
2031	475,500,000	156,040,000	18,195,588	174,235,588	430,068	173,805,520	43,465,000	9,618,860	0	226,889,379
2032	319,460,000	163,160,000	10,988,310	174,148,310	430,933	173,717,377	45,545,000	7,534,559	0	226,796,936
2033	156,300,000	96,815,000	5,002,523	101,817,523	431,788	101,385,735	47,605,000	5,475,393	0	154,466,128
2034	59,485,000	59,485,000	1,395,505	60,880,505	334,834	60,545,671	49,755,000	3,331,228	0	113,631,899
2035	0	0	0	0	218,971	-218,971	51,965,000	1,118,719	0	52,864,748

[1] Remaining principal amount, as of commencement of fiscal year, of all general obligation bonded indebtedness of the State that was outstanding as of October 1, 2014.

[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 $31,334,500 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2015, only $4,308,709 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 expected date of delivery thereof.

[4] Reflects debt service payable on the Refunded Bonds.

[5] Approximate. Reflects bond debt service on all outstanding general obligation bonded indebtedness of the State of Hawaii as of October 1, 2014, plus debt service on the Bonds as of their expected date of delivery, taking into account the refunding of the Refunded Bonds.

BONDED DEBT PER CAPITA
(Amounts in thousands except "Debt Per Capita")

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
2009	1,295	4,779,666	68	4,779,598	3,691
2010	1,300	5,157,198	118	5,157,080	3,967
2011	1,375	4,987,544	109	4,987,435	3,627
2012	1,392	5,475,348	64	5,475,284	3,933
2013	1,404	5,534,921	63	5,534,858	3,942

[1] Source: State of Hawaii, Department of Business, Economic Development and Tourism - Census Data.
[2] Source: State of Hawaii, Department of Accounting and General Services, Accounting Division.
[3] Excludes Enterprise Funds and Component Unit - University of Hawaii general obligation bonds.

Certificates of Participation and Lease Purchase Agreements

Certificates of Participation. In November 1998, the State executed a Lease Agreement (the "Kapolei Lease") related to the issuance of $54,850,000 in certificates of participation, the proceeds of which were used to purchase a state office building in Kapolei (the "Kapolei COPs"); in December 2000, the State executed a second Lease Purchase Agreement (the "Capitol District Lease") for the issuance of $23,140,000 in certificates of participation, the proceeds of which were used to purchase the No. 1 Capitol District State Office Building in Honolulu (the "Capitol District COPs"). Certificates of participation in the aggregate principal amount of $41,120,000 were issued in November 2009 for the purpose of refunding all Kapolei Certificates and Capitol District Certificates, and such certificates of participation are payable from the lease payments owed by the State under the Kapolei Lease and the Capitol District Lease.

In December 2006, the State executed a Facility Lease Agreement related to the issuance of $24,500,000 of Certificates of Participation (the "Hawaiian Homeland 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 Kapolei COPs, Capital District COPs and Hawaiian Homeland COPs (collectively, 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.

In December 2013, the Department of Transportation entered into a lease agreement in respect of the issuance of $167,740,000 certificates of participation related to an energy savings contract for the Airports System in fiscal year 2014. Rental payments under COPs issued by the Department of Transportation are secured by Airports System Revenues, subject to annual appropriation by the Legislature, and do not constitute an obligation payable from the State's General Fund revenues.

Lease Purchase Agreements. In September 2009, April 2011 and September 2013, the State, by the Department of Accounting and General Services and the Department of Public Safety, entered into Equipment Lease Purchase Agreements (the "Equipment Leases") with an aggregate principal component of $54,723,668. The State directly placed the Equipment Leases with the respective lessors. The principal components of the Equipment Leases amortize over periods that may not exceed 20 years, with the final payment coming due in September 2033. The State is using the Equipment Lease proceeds to acquire certain energy savings capital improvements pursuant to corresponding energy savings contracts for numerous State-owned buildings and structures. The lease payments under the Equipment Leases are payable from lawfully available funds of the State, including the State's General Fund, but do not constitute an obligation for which the State has levied any form of taxation. The obligations of the

State under the Equipment Leases 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 currently has no outstanding variable rate obligations subject to purchase upon an event of default or obligations subject to acceleration upon an event of default secured or otherwise supported by the General Fund. The State could in the future incur such obligations under certain circumstances, and such obligations may under certain circumstances be subject to payment in full prior to the payment of the Bonds.

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

The objectives of the investment policies of the State's cash management program are: (a) Safety: To safeguard State funds and require 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 of principal; and (c) Yield: To maximize interest earnings on State investments of funds in excess of immediate needs.

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 authorized in Section 36-21, HRS. The securities in which State funds may currently be invested include the following: (a) U.S. Treasury obligations, including Treasury bills, notes and bonds for which the full faith and credit of the United States are pledged for the payment of principal and interest; (b) certain U.S. Government-Sponsored Enterprises (GSE); (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) commercial paper with at least an A1/P1 rating; (g) bankers' acceptances with at least an A1/P1 rating; (h) money market mutual funds that are rated AAA or its equivalent by a nationally recognized rating agency or whose portfolio consists of securities that are rated as first tier securities by a nationally recognized statistical rating organization; and (i) securities of a mutual fund whose portfolio is limited to securities issued or guaranteed by the full faith and credit of the United States. 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 of Hawaii. 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 June 30, 2014, 5% of the State's investment portfolio and cash in banks consisted of repurchase agreements with banks, 48% consisted of time certificates with banks, 16% consisted of U.S. Federal Agency and Government Sponsored Entity Securities, 27% consisted of U.S. Treasury securities, and 34% consisted of cash in bank accounts.

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 collateralized by the depository with securities deposited with the Director of Finance, which has market value equivalent to the lesser of the market value of the collateral based on reputable pricing sources or its par value. Margins have been established for each type of security pledged, as provided in Section 38-3, HRS.

With respect to the types of securities pledged as collateral, Section 38-3, HRS, requires such securities to be evidences of indebtedness of the State or its counties or agencies thereof, of certain county improvement districts or frontage improvement, of the United States or certain agencies thereof, State warrants or warrant notes, direct obligations of other states or cities or counties in the continental United States and other assets of the depository eligible to secure advances from the Federal Reserve Banks. The State will not accept, as collateral, derivative products or other securities that move inversely to the general level of interest rates.

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.

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 and is determined by cash flow requirements of the particular program and the general direction of interest rates.. All investments of the State are made by the Director of Finance. The maximum length or term of an investment is five years from the date of investment pursuant to Section 36-21, HRS.

As of June 30, 2014, $4.7 million was credited to the General Fund as investment earnings for that fiscal year. The total accrued investment interest represents an average return on investment for the General Fund of 0.29%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2009 to 2013. 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, 2013, 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 payments 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)

	2009	2010	2011	2012	2013
ASSETS:					
Cash	$ 97,454	$134,232	$106,420	$ 238,623	$ 76,050
Advances to other funds	—	—	—	—	—
Due from other funds	149,795	149,467	138,352	133,005	120,748
Due from Component Units	38,662	34,916	102,304	29,300	23,800
Receivables:					
Taxes	312,936	123,459	356,975	441,549	461,846
Notes	3,487	3,281	2,906	2,187	1,440
Other	16,084	2,274	10,050	14,047	8,763
Total receivables	332,507	129,014	369,931	457,783	472,049
Investments	75,805	80,448	169,838	286,913	1,102,679
Other Assets	—	—	37,144	15,060	932
TOTAL ASSETS	$694,223	$528,077	$923,989	$1,160,684	$1,796,258
LIABILITIES AND FUND EQUITY:					
Liabilities:					
Vouchers payable	$ 95,151	$112,010	$100,685	$ 115,379	$ 105,252
Other accrued liabilities	349,997	342,001	219,554	213,900	250,459
Due to other funds	22,068	12,718	109	64	63
Due to Component Units	25,973	10,182	1,261	1,563	1,601
Deferred revenue	16,014	18,232	45,334	22,340	13,610
Total liabilities	$509,203	$495,143	$366,943	$ 353,246	$ 370,985
FUND EQUITY:					
Reserves:					
Unrealized receivables	$ 3,487	$ 3,281	N/A	N/A	N/A
Encumbrances	250,190	222,865	N/A	N/A	N/A
Unencumbered allotments	18,880	17,339	N/A	N/A	N/A
Total reserves	$272,557	$243,485	N/A	N/A	N/A
Unreserved fund balance:					
Designated for future expenditures	0	—	N/A	N/A	N/A
Undesignated	(87,537)	(210,551)	N/A	N/A	N/A
Total fund equity	$185,020	$ 32,934	N/A	N/A	N/A
Restricted	N/A	N/A	0	0	0
Committed	N/A	N/A	0	0	0
Assigned	N/A	N/A	210,164	236,779	271,020
Unassigned	N/A	N/A	346,882	570,659	1,154,253
Total fund balances*	N/A	N/A	$557,046	$ 807,438	$ 1,425,273
TOTAL LIABILITIES AND FUND EQUITY	$694,223	$528,077	$923,989	$1,160,684	$1,796,258

*Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* is effective for governmental fund financial statements issued beginning with fiscal year ended June 30, 2011. GASB Statement 54 establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. All revenues deposited into the General Fund are not constrained for specific purposes and are the general obligations of the State and are unassigned. Encumbrance balances at year-end are reflected as assigned.

REVENUES AND EXPENDITURES OF THE GENERAL FUND
OF THE STATE OF HAWAII
(for the fiscal years shown)
(Amounts in Thousands)

	2008-2009	% of Total	2009-2010	% of Total	2010-2011	% of Total	2011-2012	% of Total	2012-2013	% of Total
REVENUES:										
General excise tax.	$2,410,756	55.09	$2,279,310	51.37	$2,507,980	50.89	$2,774,636	52.32	$2,991,792	51.73
Income tax-corporation	51,875	1.19	57,394	1.29	44,143	0.90	81,179	1.53	95,060	1.64
Income tax-individual	1,322,018	30.21	1,351,571	30.46	1,429,045	29.00	1,552,233	29.27	1,709,349	29.55
Service companies tax	126,069	2.88	157,661	3.55	117,940	2.39	150,528	2.84	163,930	2.83
Liquor licenses and taxes	47,243	1.08	44,074	0.99	48,053	0.98	48,854	0.92	48,961	0.85
Tobacco licenses and taxes	76,955	1.76	85,502	1.93	106,137	2.15	102,853	1.94	94,180	1.63
Insurance premiums tax	93,720	2.14	104,667	2.36	139,090	2.82	117,617	2.22	131,906	2.28
Rental motor/tour vehicle surcharge tax	0	0.00	0	0.00	0	0.00	61,430	1.16	4,519	0.08
Inheritance and estate tax	274	0.01	0	0.00	6,900	0.14	14,124	0.27	14,886	0.26
Franchise tax.	26,075	0.60	18,666	0.42	31,682	0.64	5,229	0.10	20,673	0.36
Environmental response tax	0	0.00	0	0.00	13,995	0.28	15,776	0.30	15,537	0.27
Transient accommodations tax *	13,408	0.31	31,635	0.71	59,839	1.21	137,529	2.59	185,377	3.20
Conveyance tax	8,768	0.20	17,918	0.40	22,706	0.46	17,899	0.34	21,148	0.37
Total Taxes	4,177,161	95.47	4,148,398	93.48	4,527,510	91.86	5,079,887	95.80	5,497,318	95.05
Charges for current services and other revenues	198,947	4.53	288,401	6.52	400,594	8.14	223,724	4.20	286,686	4.95
TOTAL REVENUES	$4,376,108	100.00	$4,436,799	100.00	$4,928,104	100.00	$5,303,611	100.00	$5,784,004	100.00
EXPENDITURES:										
General government	$ 421,408	8.51	$344,110	8.14	$353,124	8.50	$369,664	7.99	$322,464	6.95
Public safety	287,883	5.82	294,576	6.97	259,086	6.24	316,863	6.85	291,855	6.29
Conservation of natural resources	56,813	1.15	35,390	0.84	28,119	0.68	26,290	0.57	28,260	0.61
Health	545,854	11.03	503,625	11.92	461,894	11.12	484,543	10.48	521,592	11.24
Welfare	669,612	13.53	712,900	16.87	761,208	18.32	1,019,919	22.05	1,102,912	23.77
Education:										
Higher	735,348	14.86	525,446	12.43	502,424	12.09	535,457	11.58	518,486	11.17
Lower and others	2,121,087	42.86	1,725,192	40.82	1,699,828	40.91	1,782,369	38.54	1,746,939	37.65
Culture-recreation	45,576	0.92	35,884	0.85	38,682	0.93	39,144	0.85	38,979	0.84
Urban redevelopment and housing.	22,619	0.46	20,386	0.48	82	0.00	108	0.00	294	0.00
Economic development & assistance	41,305	0.83	28,269	0.67	43,755	1.05	24,141	0.52	25,876	0.56
Other	1,909	0.03	114	0.01	6,722	0.16	26,250	0.57	42,621	0.92
TOTAL EXPENDITURES	$4,949,414	100.00	$4,225,892	100.00	$4,154,924	100.00	$4,624,748	100.00	$4,640,278	100.00
OTHER FINANCING SOURCES (USES):										
Transfers in	114,963	-	16,586	-	126,695	-	53,497	-	77,451	-
Transfers out	(361,534)	-	(382,767)	-	(413,652)	-	(591,053)	-	(696,818)	-
Other	30,539	-	3,188	-	37,889	-	109,085	-	93,476	-
TOTAL OTHER FINANCING SOURCES (USES)	$ (216,032)	-	$ (362,993)	-	$ (249,068)	-	$(428,471)	-	$ (525,891)	-

*Effective on July 1, 2006. Pursuant to Chapter 237D, HRS, a 7.25% Transient Accommodations Tax is assessed and distributed to various counties and special funds of the state. Effective July 1, 2009, an additional 1% tax is assessed for the period July 1, 2009 through June 30, 2010, and an additional 2% for the period July 1, 2010 through June 30, 2015. The additional 1% and 2% is to be distributed to the state general fund. Act 61, SLH 2009, authorizing the increase in taxes, is set to repeal on June 30, 2015. See also "GENERAL INFORMATION ABOUT THE STATE OF HAWAII TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONEYS; BUDGET SYSTEM; EXPENDITURE CONTROL- Taxes and Other Amounts Deposited in General Fund - Transient Accommodations Tax" in Appendix A.

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REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

The State 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 regularly 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.

The following is a summary of the Council's actions since September 2013.

In September 2013, the Council reduced its growth rate for fiscal year 2014 from 8.0% to 4.1% and increased its growth rates for the remaining fiscal years: fiscal year 2015 increased from 7.0% to 7.4%, fiscal year 2016 increased from 1.5% to 7.7%, fiscal year 2017 increased from 4.2% to 5.7%, fiscal year 2018 increased from 5.0% to 6.1% and fiscal year 2019 increased from 4.7% to 5.5%. Although the rate of growth in the visitor industry appeared to be slowing, the construction industry remained strong and the Council projected strong underlying economic growth for the next three fiscal years in the 7.0% range, tapering off to 5.0% in the subsequent years. In addition to economic factors, projected revenues were also impacted by statutory changes. The transfer of $55.5 million of general excise taxes into the Hawaii Hurricane Relief Fund in fiscal years 2014 and 2015 pursuant to Act 62, Session Laws of Hawaii 2011, contributed to the expected decline of revenues in those years. The continuation of the transient accommodations tax rate at 9.25% instead of the previously scheduled decrease to 7.25% beginning in fiscal year 2016 contributed to the expected increase in revenues.

In January 2014, the Council lowered its growth rate for fiscal year 2014 again, this time from 4.1% to 3.3%, primarily as a result of its concerns regarding the apparent slowdown in tourism. The Council maintained its September 2013 growth forecasts for the other fiscal years.

In March 2014, the Council lowered its growth rate for fiscal year 2014 still further, this time from 3.3% to 0.0%, primarily as a result of its concerns regarding the lower than expected actual general fund tax collections during the first eight months of the fiscal year. The Council also lowered its growth rate for fiscal year 2015 from 7.4% to 5.5% and for fiscal year 2016 from 7.7% to 5.0%. The Council, however, remained optimistic about the economy and kept its growth rates for fiscal years 2017 – 2020 relatively unchanged.

In June 2014, the Council lowered its growth rate for fiscal year 2014 yet again, this time from 0.0% to -0.4%, primarily as a result of the continuing decline in actual general fund tax collections. The Council remained optimistic about the economy, especially the construction industry, and maintained its March 2014 forecasts for fiscal years 2015 through 2020.

For fiscal year 2014, actual General Fund tax revenues decreased by -1.8%. In comparison, the Council's forecast decreased from a high of 8.0% in its May 2013 report to -0.4% in its June 2014 report.

In September 2014, the Council lowered its growth rate for fiscal year 2015 from 5.5% to 3.5% primarily as a result of its concerns regarding the lower than expected actual general fund tax collections for fiscal year 2014. The Council also revised the growth rates for fiscal years 2016 to 2020 to 5.5% for each fiscal year and continued the 5.5% growth rate to fiscal year 2021. Although the Council believed that the U.S. and Hawaii economies were still growing, the Council expressed uncertainty about the future.

The Council's next report is due January 10, 2015. See also "General Fund Financial Plan" in this Appendix B.

The management of the State has prepared the prospective financial information set forth below to present 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 fiscal year 2013, preliminary actuals for fiscal year 2014 and estimates for fiscal years 2015 through 2019. The budgetary General Fund resources, expenditures and balances below and under "General Fund Tax Revenues" and "Actual Collections and Distributions" are presented on a cash-basis. The State's normal practice is to utilize this cash-basis methodology for budgetary and financial planning purposes. In contrast, the State's audited financial statements are prepared on a modified accrual basis. Consequently, the cash-basis information presented under this caption and the next two captions titled "General Fund Tax Revenues" and "Actual Collections and Distributions" is not directly comparable to the modified accrual basis information presented in the State's audited financial statements, and the differences in reporting may vary substantially.

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MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 2013 – 2019[1]
(in millions of dollars)

	Actual FY 13	Actual FY 14	Estimated FY 15	Estimated FY 16	Estimated FY 17	Estimated FY 18	Estimated FY 19
REVENUES:							
Executive Branch:							
Tax revenues [2,3]	5,468.3	5,370.7	5,558.2	5,863.9	6,186.4	6,526.7	6,885.7
Nontax revenues [2,3]	730.5	690.9	606.0	601.4	614.7	620.0	628.5
Judicial Branch revenues [2,3]	35.7	34.7	37.0	37.7	38.4	39.1	39.8
Other [4]	-	-	1.0	-	-	-	-
TOTAL REVENUES	6,234.4	6,096.2	6,202.2	6,503.0	6,839.5	7,185.8	7,553.9
EXPENDITURES							
Executive Branch:							
Operating	5,597.9	5,944.3	6,137.2	6,486.0	6,809.7	7,035.6	7,257.8
CIP	-	-	-	-	-	-	-
---Specific appropriations	77.9	268.0	240.8	21.8	21.0	21.1	21.0
Other exp. (primarily additional coll. bargaining costs) [5]		0.3	15.7	73.8	122.8	127.4	127.4
Restrictions/budget adjustments [6]	-	-	(47.7)	(40.0)	(40.0)	(40.0)	(40.0)
Sub-total - Exec Branch	5,675.8	6,212.6	6,346.0	6,541.6	6,913.5	7,144.2	7,366.2
Legislative Branch	32.3	35.5	35.5	35.5	35.5	35.5	35.5
Judicial Branch	135.0	148.7	154.9	163.9	167.8	170.6	172.2
OHA	2.4	3.1	2.7	2.7	2.7	2.7	2.7
Counties	2.3	-	-	-	-	-	-
Appropriation Lapses [6]	(182.1)	(124.5)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
TOTAL EXPENDITURES	5,665.7	6,275.4	6,439.2	6,643.8	7,019.6	7,253.0	7,476.7
REV. OVER (UNDER) EXPEND.	568.8	(179.2)	(236.9)	(140.8)	(180.1)	(67.3)	77.2
CARRY-OVER BALANCE (DEFICIT)							
Beginning	275.3	844.0	664.8	427.9	287.1	107.1	39.8
Ending	844.0	664.8	427.9	287.1	107.1	39.8	117.0

1 *Unaudited. The State's cash-basis statements are not directly comparable with the State's audited financial statements, which are modified accrual basis.*
2 *Reflects actual fiscal year 2013 and preliminary actual 2014 revenue collections as reported by the Department of Accounting and General Services.*
3 *Reflects fiscal year 2015 –2019 Council on Revenues' September 2014 projections.*
4 *Reflects other revenue sources and adjustments: the transfer of $1 million of excess funds from the Medicaid investigations recovery fund pursuant to Act 134, SLH 2014.*
5 *Reflects estimated additional collective bargaining costs based on current increases.*
6 *Reflects a 5% restriction on discretionary costs in fiscal year 2015 and estimated budget adjustments needed in the next biennium and subsequent years in order to maintain adequate fund balances.*
Note: Reflects the FB 2013-2015 Executive Budget as authorized by Act 134, SLH 2013, as amended by Act 122, SLH 2014 and budget ceilings for the FB15-17 Executive Budget. Totals may not add due to rounding. This plan is 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.
Sources: Department of Accounting and General Services; Department of Budget and Finance, September 2014.

The preceding General Fund financial plan is based on revised revenue projections reported by the Council on Revenues on September 10, 2014, that also incorporates revenue decreases due to: an increase in the allocation of the conveyance tax to the rental housing trust fund; an increase in the allocation of the transient accommodations tax to the counties for fiscal years 2015 and 2016; the transfer in fiscal year 2015 of general excise taxes to recapitalize the Hawaii Hurricane Relief Fund; an increase in the motion picture, digital media and film production tax credit and extension of the credit to January 1, 2019; and the continuation of the general excise tax exemption for certain expenses paid by hotel operators and timeshare projects and removal of the cap on the aggregate amount of the exemptions that can be claimed. The Council's projections also include revenue increases due to: the continuation of the transient accommodations tax rate of 9.25% beyond fiscal year 2015; and the extension of the current rate for the environmental response tax as well as the allocation of a portion of the tax to the general fund. For purposes of developing the State budget, debt service on Build America Bonds is budgeted based upon expected gross debt service without taking into account the expected amount of federal interest subsidy payments on such bonds, and subsidy payments are recognized as non-tax revenues.

With respect to expenditures, it reflects the fiscal biennium 2015-17 Executive Budget ceilings and revised estimates for health insurance and retirement benefit payments. In addition, the financial plan includes additional OPEB prefunding costs, additional collective bargaining costs, a 5% restriction on discretionary costs in fiscal year 2015, an increase in the estimates of lapses and estimated budget adjustments of $40 million that will be needed in the next fiscal biennium and subsequent years in order to maintain adequate fund balances. The State is in the process of developing and preparing its budgets for the next fiscal biennium, consisting of fiscal years 2016 and 2017, for the Executive and Judicial Branches and the Office of Hawaiian Affairs. These budgets are to be submitted to the 28th Hawaii State Legislature, which convenes on January 21, 2015, for review and approval. The development of these budgets and subsequent deliberations during the upcoming legislative session could result in changes to program expenditures and modifications to tax and other revenue laws that are not currently reflected in the General Fund financial plan included herein.

In the General Fund financial plan, fiscal year revenues are recognized based upon receipt while fiscal year expenditures are recognized when appropriations are expended or encumbered in that year. At the end of the fiscal year, encumbrances, although they may subsequently lapse, are considered to be expended. Additionally, the Department of Education, by law, is allowed to retain up to 5% of its appropriations up to one year into the next fiscal biennium. For example, $37.2 million was carried over from fiscal year 2014 to fiscal year 2015 by the Department of Education, but in the financial plan, was considered to be expended in fiscal year 2014.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2014, and represent approximately 88% of the total General Fund revenues (as reported by DAGS). Set forth below are the actual, cash-basis General Fund tax revenues for the fiscal years ended June 30, 2013 and June 30, 2014, and estimated tax revenues for the fiscal years ending June 30, 2015 and June 30, 2016 as reported by the Department of Taxation. The estimated tax revenues are based on the forecast for total General Fund revenues from the Council on Revenues' September 10, 2014 report, and the line item projections prepared by the Department of Taxation to be consistent with the Council's forecast.

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GENERAL FUND TAX REVENUES
(Thousands of Dollars)

	Actual* 2012-2013	Actual* 2013-2014	Estimated 2014-2015	Estimated 2015-2016
General Excise and Use	$2,944,487	$2,825,041	$2,967,366	$3,189,971
Income—Individual	1,735,499	1,745,312	1,801,396	1,857,169
Income—Corporation	100,988	87,021	75,133	79,344
Public Service Company	163,930	166,179	171,757	177,994
Insurance Premiums	131,906	137,179	141,105	146,294
Tobacco & Licenses	94,180	77,659	77,288	78,957
Liquor & Permits	48,962	48,305	48,748	49,368
Banks & Other Financial Corp.	20,673	36,983	41,553	32,195
Inheritance and Estate Tax	14,886	14,789	15,060	15,358
Conveyance	19,132	26,508	11,802	12,371
Transient Accommodation Tax	171,556	187,229	190,819	208,711
Miscellaneous	20,725	18,063	16,200	16,197
TOTAL BEFORE ADJUSTMENTS	$5,466,923	$5,370,268	$5,558,227	$5,863,929
GROWTH RATE	9.90%	-1.77%	3.50%	5.50%

Sources: Actual collections are from Tax Research and Planning reports. Estimates are from the Council on Revenues' report dated September 30, 2014 and line item projections prepared by the Department of Taxation.

*Unaudited. The State's cash basis statements are not directly comparable with the State's audited financial statements, which are accrual basis. Details may not add to totals, due to rounding.

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Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for fiscal years 2013 and 2014 as reported by the State Director of Taxation. The collections from all sources for fiscal year 2014 amounted to $6.6 billion. This represents a 0.6% increase from the previous fiscal year.

	Fiscal Year Ended 6/30	
	2014	**2013**
State Tax Collections—Source of Revenue	(Thousands of Dollars)	
Banks/Financial corporations[1]	$38,983	$22,673
Conveyances[1]	75,831	54,686
Employment security contributions	264,178	262,290
Fuel	193,550	193,949
General excise, license and registration fees	609	484
General excise and use[2]	2,880,541	2,944,487
Honolulu County Surcharge[3]	242,657	193,136
Income—corporations:		
Declaration of estimated taxes	162,041	138,349
Payment with returns	27,480	20,586
Refunds	-102,500	-57,947
Income—individuals[1]:		
Declaration of estimated taxes	445,432	466,936
Payment with returns	153,649	149,277
Withholding tax on wages	1,624,994	1,562,326
Refunds	-478,265	-442,532
Inheritance and estate	14,789	14,886
Insurance premiums	137,179	131,906
Liquor and permits	48,305	48,962
Motor Vehicle Tax/Fees, Etc. [4]	168,726	176,295
Public Service companies	166,179	163,930
Tobacco and licenses[1]	121,742	127,881
Transient Accommodations Fees/Time Share Occupation fees	13	20
Transient Accommodations Tax/Time Share Occupation Tax[1]	395,229	368,556
All other [5]	83	164
TOTAL	$6,581,424	$6,541,300

Note: Details may not add to totals due to rounding.

[1] Gross collection — does not reflect allocation to Special Funds.

[2] May also contain some revenue from the Honolulu County Surcharge.

[3] Taxpayers with businesses located outside of Oahu, but with 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, and permitted transfers.

State Tax Collections—Distribution	Fiscal Year Ended 6/30 2014	2013
	(Thousands of Dollars)	
State General Fund	$5,370,268	$5,466,923
State Highway Fund	255,805	257,801
State Airport Fund	4,809	4,707
Boating Special Fund	1,627	1,621
Environmental Fund	1,240	1,295
Cigarette Stamp Administrative Fund	219	256
Cigarette Stamp Enforcement Fund	1,692	1,892
Compliance Resolution Fund	2,000	2,000
Election Campaign Fund	190	219
Employment Security Fund	264,178	262,290
Rental Housing Fund	22,765	16,409
Natural Area Reserve Fund	18,970	13,675
Convention Center Enterprise Fund	33,000	33,000
Land Conservation Fund	7,588	5,470
Tourism Special Fund	82,000	71,000
School Minor Repairs and Maintenance Fund	77	74
Public Libraries Fund	72	68
Domestic Violence/Child Abuse Neglect Funds	158	147
Cancer Research Fund	14,058	15,777
Trauma System Fund	10,540	5,919
Emergency Medical Service Fund	8,787	3,938
Community Health Centers Fund	8,787	5,919
Energy Security Fund	3,719	3,884
Energy Systems Development Fund	0	2,590
Agricultural Development & Food Security Fund	3,719	3,884
Hawaii Hurricane Relief Fund	55,500	0
Subtotal	6,171,769	6,180,758
Honolulu County Surcharge	242,657	193,136
Distributions to Counties*:		
Fuel tax	73,999	74,407
Transient Accommodations Tax	93,000	93,000
Counties Total	166,999	167,407
TOTAL	$6,581,424	$6,541,300

*Refers to distributions received by the Counties from the specified taxes.
Source: State Department of Taxation: Tax Research and Planning.
Note: Details may not add to totals due to rounding.

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 six annual actuarial valuations.

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)*	Funding Period (Years)
2007	13.95	25.5
2008	15.46	22.6
2009	15.47	28.2
2010	15.49	41.3
2011	15.52	25.0
2012	16.11	30.0
2013	16.76	28.0

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

In fiscal year 2005, the funding period increased due to recognition of large actuarial losses. In fiscal year 2006, the funding period increased due to a large increase in the liabilities associated with the adoption of new actuarial assumptions. The funding period decreases in 2007 and 2008 reflect an increase in employer contribution rates that became effective July 1, 2008 pursuant to Act 256, SLH 2007, and the net asset gain from investments that offsets actuarial losses resulting from higher than expected salary increases. The increases in fiscal years 2009 and 2010 were from the recognition of the actuarial asset loss from the significant decline in the financial markets during fiscal year 2009. The decrease in the funding period in 2011 is a reflection of Act 163, SLH 2011, which was enacted to raise the employer contribution rates over the next several years and to provide for smaller benefits for employees hired after June 30, 2012, to bring the funding period in line with the 30-year statutory requirement. The increase in the funding period in 2012 reflects the final recognition of the investment losses from fiscal year 2009. It also reflects the significant changes due to Act 163 and ERS' open group projection policy which assumes that the number of active members will remain constant and there will be no actuarial gains or losses on liabilities or investments. The decrease in the funding period in 2013 was due to liability gains from positive experience versus the actuarial assumptions.

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Summary of Actuarial Certification Statement

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

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2012 and 2013
(Includes all counties)

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

Source: Gabriel, Roeder, Smith & Company.

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

FUNDED RATIOS

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

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PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2013 AND INDEPENDENT AUDITORS' REPORT

Following is the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013 ("CAFR"). For ease of reference, Part II of Appendix B retains the CAFR's pagination as shown on the Table of Contents of the CAFR.

The full CAFR has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system and may be obtained from its website, http://emma.msrb.org, or upon request to the State of Hawaii Department of Budget and Finance, 250 South Hotel Street, Honolulu, Hawaii 96813, Attention: Financial Administration Division.

STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

DEAN H. SEKI
COMPTROLLER

HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2013

DEAN H. SEKI
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

STATE OF HAWAII

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June 30, 2013

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PART II: FINANCIAL SECTION

PART III: STATISTICAL SECTION (UNAUDITED)

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June 30, 2013

PART I: INTRODUCTORY SECTION

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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2013

Dean H. Seki
Comptroller

Maria E. Zielinski
Deputy Comptroller

Governor	**Neil Abercrombie**
Director of Finance	**Kalbert K. Young**
Director of Taxation	**Frederick D. Pablo**
Comptroller	**Dean H. Seki**
Deputy Comptroller	**Maria E. Zielinski**

Notes:

The Director of Finance is also department head of the Department of Budget and Finance.

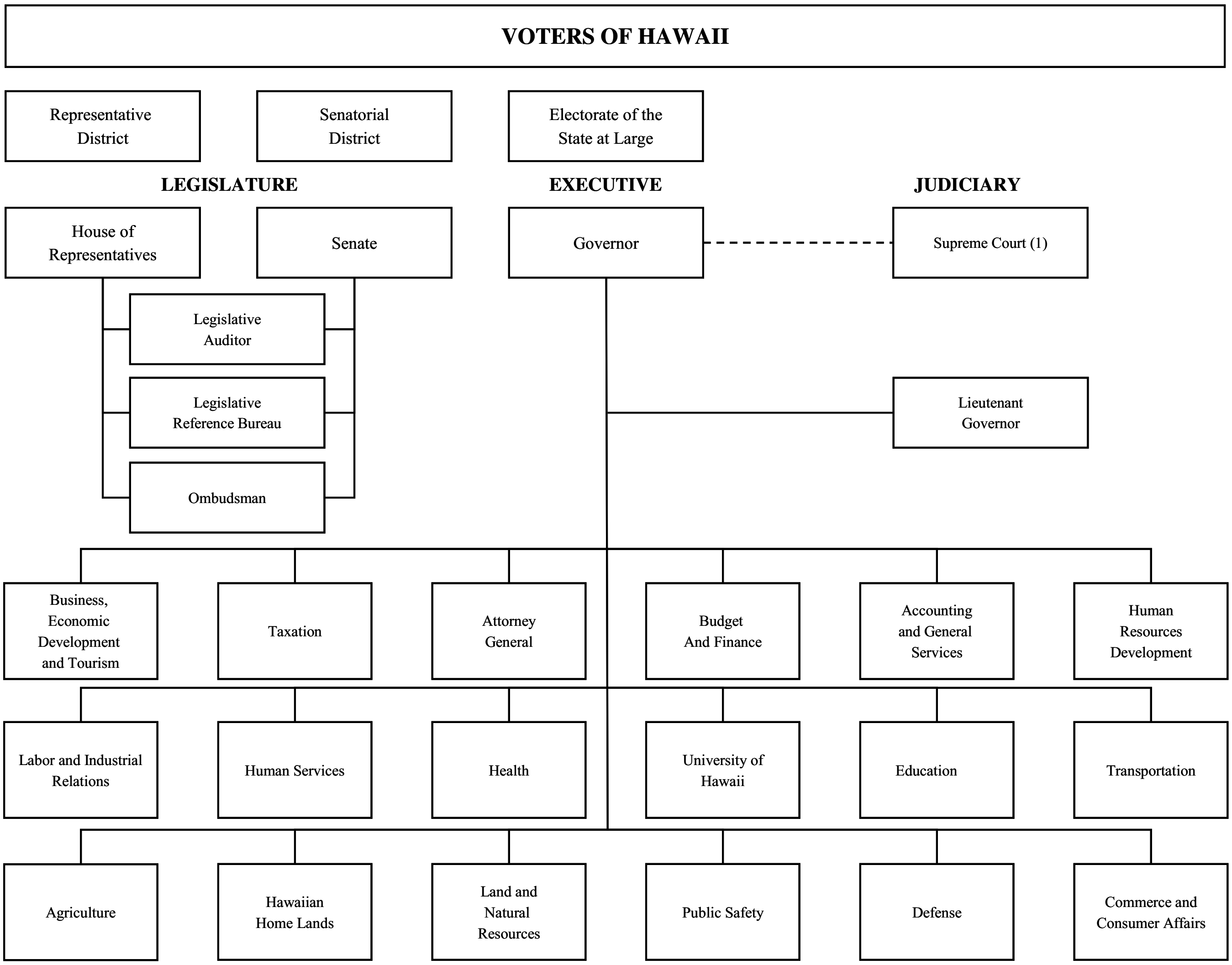
The Comptroller is also department head of the Department of Accounting and General Services.

An organizational chart including those and other departments and agencies of the State of Hawaii government is presented on the following page.

STATE OF HAWAII

Organizational Chart

June 30, 2013



(1) The Governor's appointment of justices of the Supreme Court confirmed by the Senate.

NEIL ABERCROMBIE
GOVERNOR

Dean H. Seki
Comptroller

Maria E. Zielinski
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES
P.O. BOX 119
HONOLULU, HAWAII 96810-0119

January 27, 2014

To the Honorable Governor of the State of Hawaii
To the Honorable Members of the Twenty-Eighth State
Legislature of the State of Hawaii:

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is our privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (State) for the fiscal year ended June 30, 2013. The State's Department of Accounting and General Services has prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. We believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

The report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), basic financial statements, notes to basic financial statements, and supplementary information. The statistical section includes selected financial and demographic information.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of an MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A is included in Part II of this report.

THE REPORTING ENTITY AND ITS SERVICES

With Hawaii's highly centralized state government, the State provides a full range of services as mandated by statute. These services include, but are not limited to, education (lower and higher), welfare, transportation (highways, airports, and harbors), health, hospitals, public safety, housing, culture and recreation, economic development, and conservation of natural resources.

This report includes the various funds comprising the State, including all entities that are accountable to the State. The Employees' Retirement System of the State of Hawaii, which is administered on behalf of public employees for both the state and county governments, and the Office of Hawaiian Affairs, which exists for the betterment of the conditions of native Hawaiians, are not included in the State's basic financial statements because those agencies, based on their fiscal independence and/or separate legal entity status, are not accountable to the State.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the basic financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which the State operates.

State of the Economy

Overview

During the first nine months of 2013, Hawaii's economic indicators for the tourism industry, tax revenues, the construction industry, and unemployment were all positive. The civilian labor force and the total non-agricultural wage and salary jobs increased.

Labor

After ten consecutive quarterly decreases in jobs from the second quarter of 2008 to the second quarter of 2010, Hawaii's jobs increased for the twelfth consecutive quarter. During the first nine months of 2013, Hawaii's total civilian employment averaged 616,300 persons, an increase of 3,750 persons or 0.6% over the same period in 2012. The number of wage and salary jobs was up 8,000 to 616,300 for an increase of 1.3%. Job increases were most notable in natural resources, mining, & construction (2,850); other services (1,600); food services & drinking places (1,450); and health care & social assistance (1,150). A few sectors experienced declines including government (1,500), retail trade (400), and educational services (350). Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 4.8% for the first nine months of 2013, compared to 6.1% for the same period in 2012.

Taxes

Tax revenues distributed to the State's General Fund increased $174.3 million, or 4.4%, during the first nine months of 2013 compared to the same period in 2012. All components reflected an increase during this same period. Individual net income tax collections increased $103.3 million or 8.5%, general excise and use tax (GET) collections increased $59.7 million, or 2.8%, and transient accommodations tax (TAT) collections were up $32.2 million, or 12.1%.

Personal Income

Total nominal personal income, not adjusted for inflation, increased $4.8 billion, or 4.0% in the first half of 2013 compared to the same period in 2012. Among its components, the fastest growth was seen in dividends, interest & rent of 13.5%, proprietors' income of 9.1%, and wages and salary disbursements of 3.6%. Contributions for government social insurance, which are subtracted from personal income, decreased by 18.4%.

Prices

Honolulu's consumer price index (CPI) increased 1.8% for the first half of 2013 compared to the same period in 2012, higher than the 1.5% United States (U.S.) average CPI-U increase. The Honolulu increase was primarily due to increases in food and beverage (3.9%), medical care (2.8%), recreation (2.6%), and housing (2.0%). The prices also increased for education and communication (1.8%) and other goods and services (1.4%). Prices decreased for apparel (2.3%) and transportation (0.2%).

Recent Developments in Hawaii's Major Industries

Visitor Industry

In the first nine months of 2013, total visitor arrivals by air increased 225,171 or 4.3% compared to the same period of 2012. Domestic arrivals (visitors on flights originating inside of the U.S.) increased 2.8% while international arrivals increased 7.7%. Similarly, total visitor days (visitor arrivals multiplied by average length of stay) were up 2.6% in the first nine months of 2013 compared to the same period of 2012 and total visitor spending increased $433.0 million or 4.1% over the same period. Statewide hotel occupancy rate averaged 77.6% in the first nine months of 2013, 1.4% lower than the average rate during the same period of 2012.

Construction

Hawaii's construction industry was one of the major contributors to job growth during the 2002-2007 years. Since the second quarter of 2008 to the second quarter of 2012, the quarter-over-quarter growth rate has been negative. However, in the third quarter of 2013, the construction sector gained 3,200 jobs or 10.8% compared with the same quarter of 2012. During the first nine months of 2013, construction jobs increased by 2,850 or 9.8% compared to the same period of 2012. The total value of new private building authorizations increased $140.9 million or 7.5% for the first nine months of 2013 compared to the same period of 2012.

Outlook for Hawaii's Economy

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy is continued positive growth for the rest of 2013 and into 2014. Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies. International conditions or prospects that affect Hawaii's economy such as the European debt crisis, China domestic demands and natural disaster recoveries in the Philippines. The November 2013 Blue Chip Economic Consensus Forecasts expected real GDP growth in 2014 to increase 2.5% for the U.S. and 1.8% for Japan.

In 2014, visitor arrivals, visitor days, and visitor expenditures are predicted to increase 2.7%, 2.8%, and 4.2%, respectively.

DBEDT projects total non-agricultural wage and salary jobs to increase 1.8% in 2014. Real Personal Income is expected to increase 3.3% in 2014 with real GDP projected to increase 2.8% in 2014.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.1% in 2014. The State GDP deflator is expected to grow 2.0% in 2014.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and maintaining the State's accounting system, consideration is given to the effectiveness of internal control, which is designed to accomplish certain objectives of management, including:

1. Transactions are executed in accordance with management's general and specific authorization.

2. Transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and to maintain accountability for assets.

3. Access to assets is permitted only in accordance with management's authorization.

Internal controls are designed to provide reasonable, but not absolute, assurance that the above objectives were accomplished. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. We believe that the State's internal controls are effective in accomplishing management's objectives.

By statutory provision, the State prepares a biennial budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2013 and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

An allotment system and encumbrance accounting are utilized by the State for budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

EMPLOYEE UNION CONTRACTS

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. In 2013 the Legislature created a new bargaining unit. This bargaining unit will be composed of State and county employees, relocating individuals from two existing collective bargaining units into the new Bargaining Unit 14. It is unknown at this time when terms for a collective bargaining agreement for this new unit will become effective.

Of the other 13 collective bargaining units, twelve include State employees. Two collective bargaining agreements expired June 30, 2013 and those bargaining units remain engaged in the collective bargaining process with the employer. Five units have collective bargaining agreements in effect through June 30, 2015. Five units have collective bargaining agreements that will be in effect through June 30, 2017.

INDEPENDENT AUDIT

Although the State statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2013. The independent auditors' report has been included in Part II of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and I am submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

We extend our appreciation to the staff of the various State agencies whose dedicated time and effort made the preparation of this report possible. Their combined efforts have produced a report that we believe will serve as a helpful source of information for anyone having an interest in the financial operations of the State.

Respectfully submitted,

DEAN H. SEKI
Comptroller, State of Hawaii

MARIA E. ZIELINSKI
Deputy Comptroller, State of Hawaii

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Hawaii

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

PART II: FINANCIAL SECTION

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Deloitte & Touche LLP
Suite 2700
999 Bishop Street
Honolulu, HI 96813-4454
USA

Tel: +1 808 543 0700
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements (pages 32–105) as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these 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, the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation which are discretely presented component units. These financial statements that we did not audit 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	- %	- %
Business-Type Activities	94%	59%
Aggregate Discretely Presented Component Units	100%	100%
Fiduciary Funds	50%	7%

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

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

Opinions

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 position 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 14-30), Schedule of Revenue and Expenditures — Budget and Actual (pages 108-109 and 120-125), and Schedules of Funding Progress (page 112) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements and schedules (pages 116–119 and 127–133), introductory section (pages 1-7) and statistical section (pages 135-153) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of the State of Hawaii's management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including compiling and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Deloitte + Touche LLP

Honolulu, HI
January 27, 2014

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, 2013. 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, 2013 by $4.8 billion (net position). Unrestricted net position which may be used to meet the State's ongoing obligations to citizens and creditors was a negative $1.8 billion, an increase of $24.4 million from the previous year. Net position of governmental activities and business-type activities decreased by $84.4 million and increased by $391.5 million, respectively. The combined increase to the State was $307.1 million from the prior fiscal year.

Fund Highlights

At June 30, 2013, the State's Governmental Funds reported combined ending fund balances of $1.9 billion, an increase of $485.2 million from the prior fiscal year. Of this amount, $1.4 billion, or 73.7%, of total fund balances was in the General Fund, and the remaining $509.8 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net fund position at June 30, 2013, of $3.6 billion, an increase of $391.5 million during the fiscal year.

Liabilities

The State's liabilities increased during the current fiscal year to $13.0 billion, an increase of $807.1 million. During fiscal 2013, the State issued General Obligation bonds in the amount of $397.0 million to advance refund $435.1 million of previously issued outstanding General Obligation bonds. In addition, the State issued $444.0 million in General Obligation bonds and $26.0 million in taxable General Obligation bonds for the purpose of financing or reimbursing the State of Hawaii for the Hawaiian Home Lands Settlement and for financing capital projects. The State did not issue Revenue Bonds during fiscal 2013.

In accordance with GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* the State increased the liability for Postemployment Benefits Other Than Pension, to $3.1 billion, an increase of $556.3 million for the fiscal year ended June 30, 2013.

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

The statement of activities presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position 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 is considered to be a major fund. 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 schedule has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedule for the General Fund is located in the required supplementary information 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 36–39 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 40–44 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 page 45–46 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 54–105 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 position is a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $4.8 billion as of June 30, 2013, and net position increased $307.1 million, or 6.8%, over the course of this fiscal year's operations. The net position of the governmental activities decreased by $84.4 million, or 6.3%, and business-type activities had an increase of $391.5 million, or 12.3%. The following table was derived from the Government-Wide Statement of Net Position.

Summary Schedule of Net Position

June 30, 2013 and 2012
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	$ 3,664,426	$ 3,001,480	$ 2,664,900	$ 2,369,460	$ 6,329,326	$ 5,370,940
Capital assets, net	8,929,329	8,833,349	2,533,079	2,473,197	11,462,408	11,306,546
Total assets	12,593,755	11,834,829	5,197,979	4,842,657	17,791,734	16,677,486
Liabilities:						
Long-term liabilities	9,508,549	8,952,869	1,486,514	1,518,782	10,995,063	10,471,651
Other liabilities	1,839,670	1,552,059	144,096	147,983	1,983,766	1,700,042
Total liabilities	11,348,219	10,504,928	1,630,610	1,666,765	12,978,829	12,171,693
Net position:						
Net investment in capital assets	2,863,379	2,794,481	1,599,483	1,560,267	4,462,862	4,354,748
Restricted	1,051,548	930,294	1,068,146	966,042	2,119,694	1,896,336
Unrestricted	(2,669,391)	(2,394,874)	899,740	649,583	(1,769,651)	(1,745,291)
Total net position	$ 1,245,536	$ 1,329,901	$ 3,567,369	$ 3,175,892	$ 4,812,905	$ 4,505,793

Analysis of Net Position

By far, the largest portion of the State's net position ($4.5 billion or 92.7%) 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 position ($2.1 billion or 44.0%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative $1.8 billion or negative 36.8% represents unrestricted net position.

At June 30, 2013, the State is able to report positive balances in two of the categories of net position for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net position for governmental activities is primarily attributed to the State's other postemployment benefit liability of $3.1 billion.

Changes in Net Position

The State's net position increased by $307.1 million, or 6.8%, during the fiscal year ended June 30, 2013. Approximately 56.5% of the State's total revenues came from taxes, while 26.8% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 16.1% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, general government, and highways.

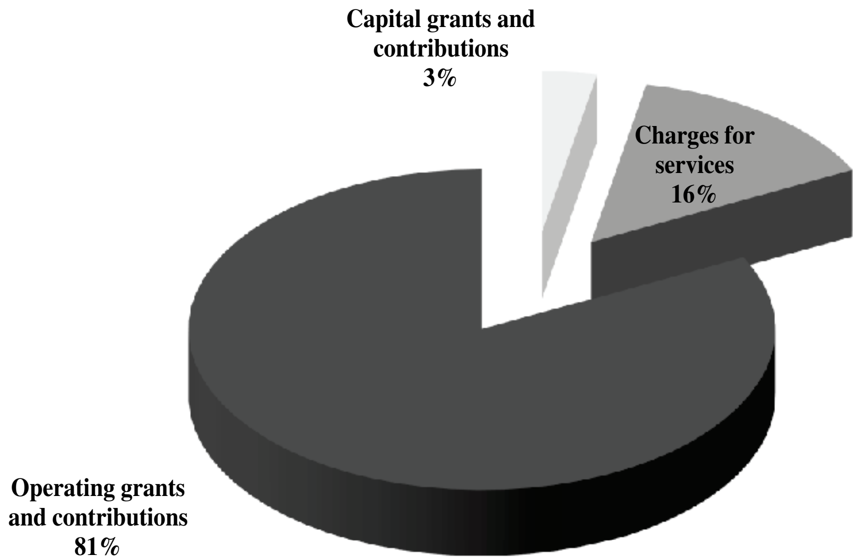
The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net position changed during the fiscal year.

Summary Schedule of Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012
(Amounts in thousands)

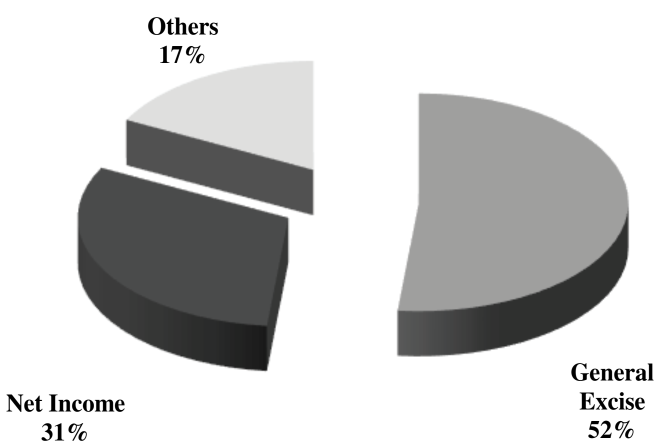
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	$ 494,647	$ 421,145	$ 1,154,047	$ 1,149,559	$ 1,648,694	$ 1,570,704
Operating grants and contributions	2,589,537	2,370,437	-	-	2,589,537	2,370,437
Capital grants and contributions	96,184	97,322	64,313	85,899	160,497	183,221
General revenues:						
Taxes	5,796,549	5,358,622	-	-	5,796,549	5,358,622
Investment income and other	25,502	5,347	33,633	4,164	59,135	9,511
Total revenues	9,002,419	8,252,873	1,251,993	1,239,622	10,254,412	9,492,495
Expenses:						
General government	531,839	552,788	-	-	531,839	552,788
Public safety	451,946	502,002	-	-	451,946	502,002
Highways	490,091	516,924	-	-	490,091	516,924
Conservation of natural resources	52,208	96,349	-	-	52,208	96,349
Health	813,190	773,288	-	-	813,190	773,288
Welfare	2,798,053	2,464,582	-	-	2,798,053	2,464,582
Lower education	2,592,125	2,598,444	-	-	2,592,125	2,598,444
Higher education	654,611	672,716	-	-	654,611	672,716
Other education	20,086	16,753	-	-	20,086	16,753
Culture and recreation	94,679	111,628	-	-	94,679	111,628
Urban redevelopment and housing	173,677	23,888	-	-	173,677	23,888
Economic development and assistance	172,602	209,460	-	-	172,602	209,460
Interest expense	241,677	243,938	-	-	241,677	243,938
Airports	-	-	366,918	353,541	366,918	353,541
Harbors	-	-	90,548	84,826	90,548	84,826
Unemployment compensation	-	-	336,931	468,610	336,931	468,610
Nonmajor proprietary fund	-	-	66,119	169,166	66,119	169,166
Total expenses	9,086,784	8,782,760	860,516	1,076,143	9,947,300	9,858,903
Change in net position	(84,365)	(529,887)	391,477	163,479	307,112	(366,408)
Net position – beginning of year	1,329,901	1,859,788	3,175,892	3,012,413	4,505,793	4,872,201
Net position – end of year	$ 1,245,536	$ 1,329,901	$ 3,567,369	$ 3,175,892	$ 4,812,905	$ 4,505,793

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

Program Revenues by Source — Governmental Activities
Fiscal Year Ended June 30, 2013



Tax Revenues by Source — Governmental Activities
Fiscal Year Ended June 30, 2013



Analysis of Changes in Net Position

The State's net position increased by $307.1 million during the current fiscal year. This is explained in the governmental and business-type activities discussion, and is primarily due to decrease in net position of governmental activities of $84.4 million offset by increases in net position of Unemployment Compensation Fund of $173.1 million, Airports of $122.1 million, Harbors of $27.6 million, and Nonmajor Proprietary Funds of $68.7 million.

Governmental Activities

Governmental activities decreased the State's net position by $84.4 million. The elements of this decrease are reflected below:

	Governmental Activities (Amounts in thousands) 2013	2012
General revenues:		
Taxes	$ 5,796,549	$ 5,358,622
Interest and investment income and other	25,502	5,347
Total general revenues	5,822,051	5,363,969
Expenses, net of program revenues:		
General government	18,757	38,688
Public safety	407,183	463,945
Highways	313,526	351,757
Conservation of natural resources	(16,969)	36,699
Health	582,276	573,125
Welfare	1,097,537	1,003,240
Lower education	2,203,050	2,216,887
Higher education	654,611	672,716
Other education	20,086	16,753
Culture and recreation	91,430	108,859
Urban redevelopment and housing	141,583	(9,402)
Economic development and assistance	151,669	176,651
Interest expense	241,677	243,938
Total governmental activities expenses, net of program revenues	5,906,416	5,893,856
Decrease in governmental activities net position	$ (84,365)	$ (529,887)

Tax revenues increased by $437.9 million, or 8.2%, from the previous fiscal year. The increase was primarily due to increases in general excise taxes of $217.2 million, in individual and corporate income taxes of $162.6 million, and in transient accommodations taxes of $47.8 million.

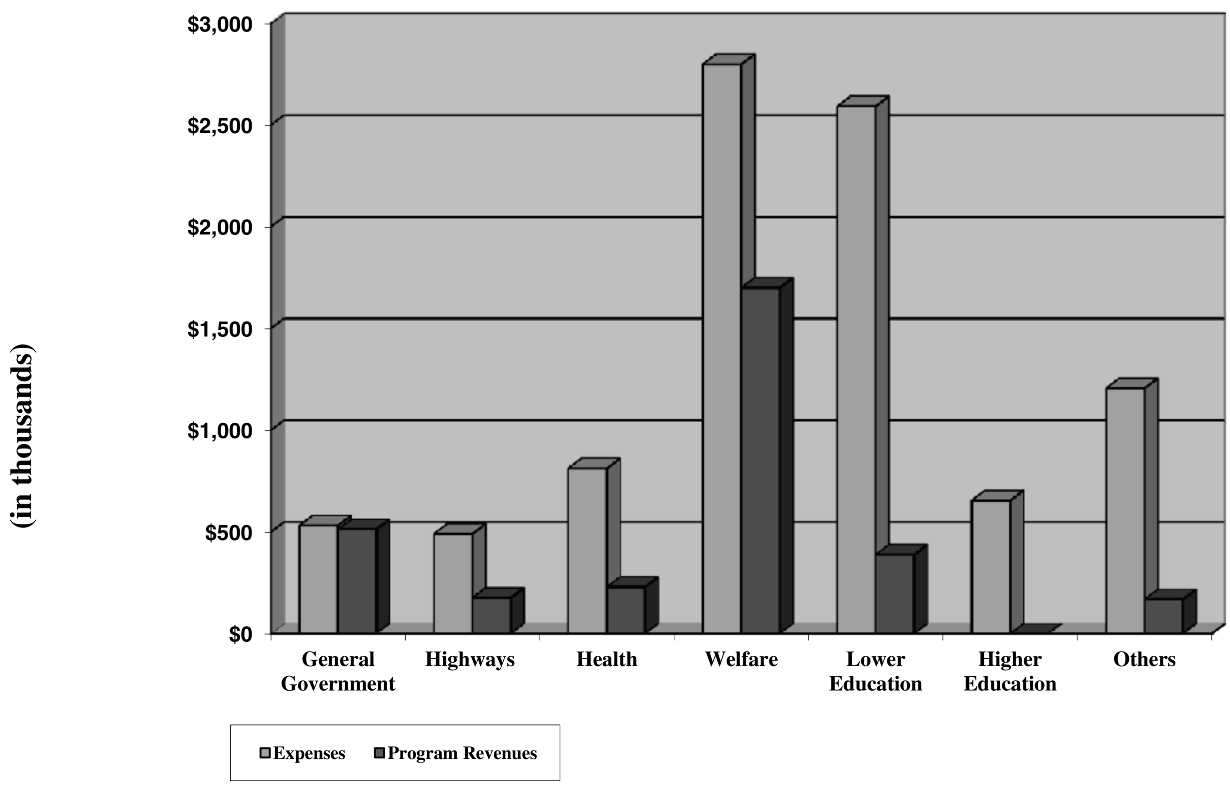
Interest and investment income increased by $20.2 million from the previous year. The increase is primarily due to the increase in the fair market value of the student loan auction rate securities, which increased $12.6 million in fiscal year 2013, compared to decreasing $4.7 million in fiscal year 2012.

Urban redevelopment and housing net expenses increased $151.0 million or 1606% from the previous year. The increase is primarily attributed to $93 million of General Obligation bond proceeds that were released to the Hawaii Public Housing Authority in fiscal year 2013.

Welfare net expenses increased $94.3 million or 9.4%. This change is primarily due to increased general fund expenses for the State's share of medical assistance programs.

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:

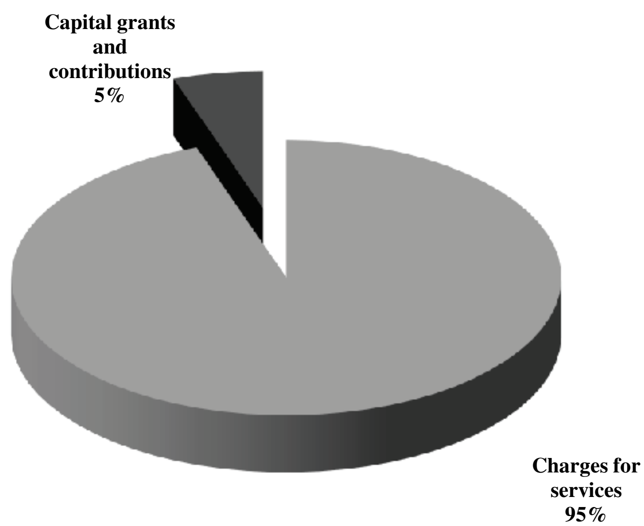
Expenses and Program Revenues — Governmental Activities
Fiscal Year Ended June 30, 2013



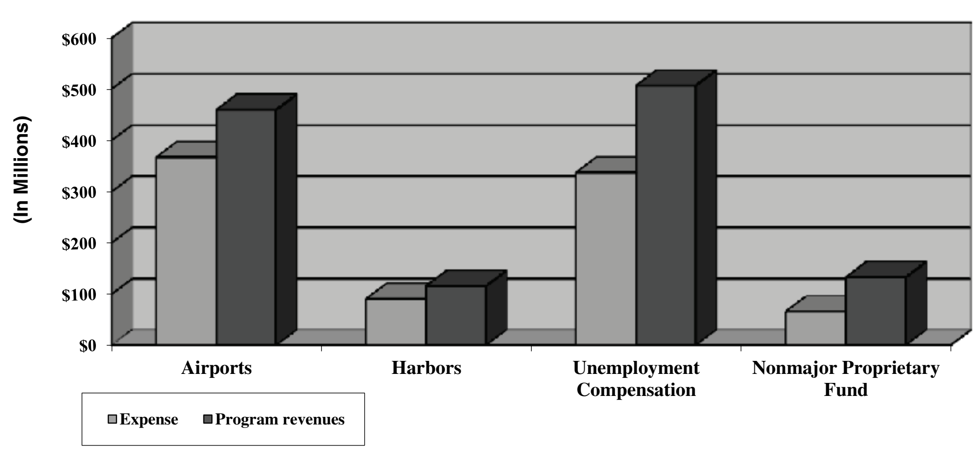
Business-Type Activities

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, 2013



Expenses and Program Revenues — Business-Type Activities
Fiscal Year Ended June 30, 2013



Business-type activities increased the State's net position by $391.5 million in fiscal 2013, compared to an increase of $163.5 million in fiscal 2012. Key elements of this increase are as follows:

- Airport's net position increased $122.1 million compared to an increase of $41.6 million in the prior fiscal year. Charges for current services increased by $88.4 million primarily due to the reinstatement of the rental car customer facility charges which amounted to an increase of $55.5 million. Also contributing to the increase was a $19.0 million business interruption insurance settlement relating to events of the September 11th. Operating and capital grants and contributions decreased $18.8 million mainly due to a decrease in federal capital and federal stimulus grants.

- Harbor's net position increased $27.6 million in fiscal 2013 compared to an increase of $38.8 million in fiscal 2012. Charges for current services increased by $8.2 million offset by a decrease in capital contributions of $15.2 million and an increase in expenses of $5.7 million.

- The Unemployment Compensation Fund's net position increased $173.1 million compared to an increase of $66.0 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of $131.7 million offset by a decrease in unemployment tax revenues of $26.9 million.

- Nonmajor Proprietary Fund's net position increased $68.7 million in fiscal 2013 compared to an increase of $17.0 million in fiscal 2012. The change was primarily due to the operations of the Employer-Union Health Benefits Trust Fund (EUTF). EUTF's expenses for self-funded plans decreased $103.8 million while charges for current services decreased by $64.7 million. Also contributing to the increase was an increase in capital contribution of $13.3 million in the Water Pollution Control Revolving Fund.

- Key elements of the State's business-type activities for the fiscal years ended June 30, 2013 and 2012 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	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Airports	$ 431,708	$ 343,279	$ 30,619	$ 49,375	$ 462,327	$ 392,654	$ 366,918	$ 353,541	$ 95,409	$ 39,113
Harbors	112,060	103,876	4,115	19,357	116,175	123,233	90,548	84,826	25,627	38,407
Unemployment Compensation	507,096	533,963	-	-	507,096	533,963	336,931	468,610	170,165	65,353
Nonmajor Proprietary Funds	103,183	168,441	29,579	17,167	132,762	185,608	66,119	169,166	66,643	16,442
Total	$ 1,154,047	$ 1,149,559	$ 64,313	$ 85,899	$ 1,218,360	$ 1,235,458	$ 860,516	$ 1,076,143	$ 357,844	$ 159,315

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 fiscal 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement which applies to governmental funds, provides new fund balance classifications that comprise a hierarchy based primarily on the extent the State is bound to honor constraints on the specific purpose for which amounts can be spent. The previous reserved and unreserved classifications have been replaced with restricted, committed, and unassigned. Additional information on fund balance classifications is found in Note 1.

At the end of the fiscal year, the State's Governmental Funds reported combined ending fund balances of $1.9 billion. Of this amount, $21.9 million is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $486.2 million has been committed to specific purposes. An additional $883.8 million has been assigned to specific purposes by management. The unassigned fund balance was $543.2 million at fiscal year end. This amount includes a deficit of a negative unrestricted fund balance of $563.5 million in the Capital Projects Fund, which indicates that the fund spent or committed more than what was expendable.

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the total fund balance of the General Fund was $1.4 billion compared to $807.4 million in fiscal 2012. This increase is mainly attributed to the increase in tax revenues. The fund balance of the State's Capital Projects Fund decreased $176.5 million during the fiscal year. This deficit is the result of the State's policy of recording expenditures upon the allotment of general obligation bond appropriations expended by component units and incurring general obligation bond expenditures in excess of cash available. The deficit caused by the recording of expenditures when funds are allotted is $512.7 million and is reflected on the balance sheet as "Due to Component Units". The fund balance of the Med-Quest Special Fund and other Nonmajor Governmental Funds decreased $2.6 million and increased $46.5 million, respectively.

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 position of $122.1 million, Harbors had an increase in net position of $27.6 million, the Unemployment Compensation Fund had an increase in net position of $173.1 million, and the Nonmajor Proprietary Funds had an increase in net position of $68.7 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 $267.4 million, or 4.5%, more than the final budget. The increase was attributed to higher tax revenues of $161.5 million, which was comprised of increases in corporate and individual net income tax of $167.8 million, tax on premium of insurance companies of $9.9 million, and public service companies taxes of $8.2 million, offset by lower general excise taxes of $18.0 million and tobacco taxes of $8.9 million. Other revenues increased $110.9 million, mainly attributed to drug rebate collections by the Medquest program of $62.9 million.

The difference between the final budget and actual expenditures on a budgetary basis was $224.3 million. The large positive variance in general government of $124.9 million was mostly due to $81.8 million savings in health premium and retirement payments. Retirement savings was the result of reduced employer contributions paid in fiscal 2013 because of overpayments made in prior years. Savings in health premiums were due to lower premium rates and lower than projected enrollments. Also contributing to the positive variance in general government was $14.8 million of appropriations made to the State Legislature that was carried over to the next fiscal year. Positive variances in health and welfare resulted from spending restrictions. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $28.4 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry up to 5% of its unencumbered appropriations. Also contributing to the positive variance in lower education was $12.2 million appropriated to the Department of Education that lapsed because of imposed spending restrictions. The positive variance of $15.5 million in other is attributed to the appropriation made for the payment of legislative claims that was carried over to the next fiscal year.

Capital Asset and Debt Administration

The State's capital assets for its governmental and business-type activities as of June 30, 2013, amounted to $11.5 billion (net of accumulated depreciation of $9.8 billion), an increase of $155.9 million from fiscal 2012. The increase is due to an increase in governmental activities assets of $477.3 million and in business-type assets of $170.9 million offset by increases in primary governmental activities and business-type activities accumulated depreciation of $381.3 million and $111.1 million, respectively. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2013, included the following:

- $236.0 million for various capital improvement projects and repairs and maintenance of public school facilities throughout the State.
- $40.0 million for the design and construction of the new Kapolei II Elementary School.
- $40.7 million for airfield improvements at airfields, statewide.
- $48.4 million for various capital improvement projects at the Honolulu International Airport.

- $96.6 million for construction of a new access road, land acquisition, and various construction projects at Kahului Airport.
- $50.2 million for improvements to rental car facilities, statewide.
- $25.2 million for improvements to Kalaeloa Barbers Point Harbor.
- $42.5 million for Kapalama Military Reservation improvements at Honolulu Harbor.
- $51.0 million for the expansion of the interisland cargo terminal at Hilo Harbor.
- $141.9 million for various construction, maintenance, and renovation projects at various University of Hawaii campuses.
- $32.2 million for various health and safety renovation projects at state community hospitals.
- $91.3 million for renovations and improvements to federal and state low income housing projects.

Additional information on the State's capital assets can be found in Note 3 to the basic financial statements.

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $7.3 billion. Of this amount, $5.6 billion comprises debt backed by the full faith and credit of the State and $1.8 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, 2013 and 2012
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
General obligation bonds	$ 5,534,921	$5,475,348	$ 32,934	$ 34,611	$ 5,567,855	$ 5,509,959
Revenue bonds	441,150	468,180	1,326,112	1,370,314	1,767,262	1,838,494
Total	$ 5,976,071	$5,943,528	$ 1,359,046	$ 1,404,925	$ 7,335,117	$ 7,348,453

The State's total long-term debt decreased by $13.3 million, or 0.2%, during the current fiscal year. The decrease resulted from declining principal balances in revenue bonds of the State's business-type activities, and partially offset by issuances of general obligation bonds (see Notes 4 and 5 to the basic financial statements).

As of June 30, 2013, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

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, 2013 was $353.4 million.

Additional information on the State's long-term debt can be found in Notes 4, 5 and 6 to the basic financial statements.

Other Post-Employment Benefits (OPEB)

The State implemented provisions of GASB No. 45 for fiscal year ended June 30, 2008.

The latest actuarial valuation studies were completed as of July 1, 2011 for the Employer-Union Health Benefits Trust Fund (EUTF) and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $13.7 billion. The State's combined annual OPEB cost for fiscal 2013 was $1.0 billion and its OPEB contributions were $277.9 million, resulting in an increase in the net OPEB obligation of $732.3 million. The total net OPEB obligation balance at fiscal year end increased to $3.9 billion.

In July 2013, Act 268 was signed into law which established the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability. The law also requires the State beginning in fiscal 2015 to pay additional amounts towards reducing the unfunded liability until fiscal 2019 when 100% of the annual required contribution must be paid. Commencing fiscal year 2019, general excise tax revenues will be used to fund any difference between the annual required contribution and the payment made by the State.

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for November 2013 was 4.4% while the seasonally adjusted national unemployment rates was 7.0%. One year ago, the State's seasonally adjusted unemployment rate stood at 5.3% while the seasonally adjusted national unemployment rate was 7.8%.

In January 2014, the Council of Revenues revised the State's General Fund tax revenue growth rate for fiscal year 2014 from 4.1% to 3.3% and kept the revenue growth rate for fiscal year 2015 unchanged at 7.4%.

Cumulative general fund tax revenues for the first six months of fiscal 2014 were $2.6 billion, a decrease of $18.6 million from the same period last fiscal year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, decreased 2.6%.

The State is optimistic about the recovery of Hawaii's economy but remains cautious about its sustainability in the face of numerous uncertainties. Therefore, the Governor has imposed a 5% spending restriction on discretionary operating expenses of General Funds for all departments and agencies of the Executive Branch for fiscal year 2014.

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 POSITION
JUNE 30, 2013
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
CASH AND CASH EQUIVALENTS	$ 194,578	$ 1,124,534	$ 1,319,112	$ 391,280
RECEIVABLES:				
Taxes	461,846	117,185	579,031	-
Accounts and accrued interest — net	-	26,620	26,620	198,063
Notes, loans, mortgages, and contributions — net	75,743	30,568	106,311	89,095
Federal government	119,794	10,294	130,088	2,507
Premium	-	67,896	67,896	-
Other — net	36,363	5,604	41,967	39,024
Total receivables	693,746	258,167	951,913	328,689
INTERNAL BALANCES	1,597	(1,597)	-	-
DUE FROM COMPONENT UNITS	305,442	-	305,442	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	524,420
INVESTMENTS	2,324,388	-	2,324,388	332,021
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	24,174
Materials and supplies	-	228	228	31,938
Total inventories	-	228	228	56,112
RESTRICTED ASSETS	-	912,333	912,333	194,456
OTHER ASSETS:				
Prepaid expenses	5,523	6,198	11,721	26,652
Bond issue costs — net	138,220	7,329	145,549	1,396
Note receivable	-	336,269	336,269	485,131
Investments	-	-	-	506,263
Other	932	21,439	22,371	25,456
Total other assets	144,675	371,235	515,910	1,044,898
CAPITAL ASSETS:				
Land and land improvements	2,232,588	1,794,368	4,026,956	478,971
Infrastructure	9,046,606	-	9,046,606	193,414
Construction in progress	864,716	415,562	1,280,278	487,429
Buildings, improvements, and equipment	4,469,612	2,445,452	6,915,064	4,056,199
Accumulated depreciation	(7,684,193)	(2,122,303)	(9,806,496)	(2,077,391)
Total capital assets — net	8,929,329	2,533,079	11,462,408	3,138,622
TOTAL ASSETS	$ 12,593,755	$ 5,197,979	$ 17,791,734	$ 6,010,498

(continued)

STATE OF HAWAII

STATEMENT OF NET POSITION
JUNE 30, 2013
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
LIABILITIES:				
Vouchers and contracts payable	$ 312,579	$ 33,633	$ 346,212	$ 205,405
Other accrued liabilities	398,236	68,021	466,257	104,878
Due to Component Units	524,420	-	524,420	-
Due to Primary Government	-	-	-	305,442
Due to federal government	37,145	-	37,145	-
Unearned revenue	-	6,671	6,671	61,901
Estimated future costs of land sold	-	-	-	35,347
Unamortized bond premium	496,302	-	496,302	-
Premiums payable	-	35,771	35,771	-
Other	70,988	-	70,988	17,233
Long-term liabilities:				
Due within one year:				
Payable from restricted assets — revenue bonds payable — net	-	53,798	53,798	-
Prepaid airport use charge fund	-	2,865	2,865	-
General obligation (GO) bonds payable	430,556	1,758	432,314	-
Notes, mortgages, and installment contracts payable	-	-	-	1,652
Accrued vacation and retirement benefits payable	63,290	3,753	67,043	43,573
Revenue bonds payable — net	28,425	-	28,425	83,281
Reserve for losses and loss adjustment costs	39,493	1,003	40,496	8,736
Capital lease obligations	6,092	-	6,092	8,512
Due in more than one year:				
Prepaid airport use charge fund	-	37,932	37,932	-
GO bonds payable	5,104,365	31,176	5,135,541	-
Notes, mortgages, and installment contracts payable	-	-	-	55,365
Accrued vacation and retirement benefits payable	157,483	8,726	166,209	68,494
Revenue bonds payable — net	412,725	1,272,314	1,685,039	916,037
Reserve for losses and loss adjustment costs	115,645	3,812	119,457	19,701
Capital lease obligations	83,787	-	83,787	18,013
Premium on bonds payable	-	-	-	4,703
Other postemployment benefit liability	3,066,452	68,424	3,134,876	800,342
Other	236	953	1,189	67,767
TOTAL LIABILITIES	11,348,219	1,630,610	12,978,829	2,826,382
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	2,863,379	1,599,483	4,462,862	2,250,671
RESTRICTED FOR:				
Capital maintenance projects	133,835	-	133,835	-
Health and welfare	124,621	-	124,621	-
Natural resources	114,675	-	114,675	-
Hawaiian programs	277,015	-	277,015	-
Other purposes	401,339	-	401,339	-
Bond requirements and other	63	1,068,146	1,068,209	916,129
UNRESTRICTED	(2,669,391)	899,740	(1,769,651)	17,316
TOTAL NET POSITION	$ 1,245,536	$ 3,567,369	$ 4,812,905	$ 3,184,116

See accompanying notes to basic financial statements. (concluded)

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Amounts in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT:								
Governmental activities:								
General government	$ 531,839	$ 267,081	$ 246,001	$ -	$ (18,757)	$ -	$ (18,757)	
Public safety	451,946	40,090	4,673	-	(407,183)	-	(407,183)	
Highways	490,091	7,856	72,525	96,184	(313,526)	-	(313,526)	
Conservation of natural resources	52,208	29,411	39,766	-	16,969	-	16,969	
Health	813,190	56,963	173,951	-	(582,276)	-	(582,276)	
Welfare	2,798,053	40,670	1,659,846	-	(1,097,537)	-	(1,097,537)	
Lower education	2,592,125	42,606	346,469	-	(2,203,050)	-	(2,203,050)	
Higher education	654,611	-	-	-	(654,611)	-	(654,611)	
Other education	20,086	-	-	-	(20,086)	-	(20,086)	
Culture and recreation	94,679	-	3,249	-	(91,430)	-	(91,430)	
Urban redevelopment and housing	173,677	4,559	27,535	-	(141,583)	-	(141,583)	
Economic development and assistance	172,602	5,411	15,522	-	(151,669)	-	(151,669)	
Interest expense	241,677	-	-	-	(241,677)	-	(241,677)	
Total governmental activities	9,086,784	494,647	2,589,537	96,184	(5,906,416)	-	(5,906,416)	
Business-type activities:								
Airports	366,918	431,708	-	30,619	-	95,409	95,409	
Harbors	90,548	112,060	-	4,115	-	25,627	25,627	
Unemployment compensation	336,931	507,096	-	-	-	170,165	170,165	
Nonmajor proprietary funds	66,119	103,183	-	29,579	-	66,643	66,643	
Total business-type activities	860,516	1,154,047	-	64,313	-	357,844	357,844	
TOTAL PRIMARY GOVERNMENT	$ 9,947,300	$ 1,648,694	$ 2,589,537	$ 160,497	(5,906,416)	357,844	(5,548,572)	
COMPONENT UNITS:								
University of Hawaii	$ 1,648,158	$ 384,387	$ 482,619	$ -				$ (781,152)
Hawaii Housing Finance and Development Corporation	52,770	49,985	12,570					9,785
Hawaii Public Housing Authority	125,850	18,014	72,422	12,466				(22,948)
Hawaii Health Systems Corporation	713,924	550,004	3,055	31,498				(129,367)
Hawaii Tourism Authority	105,672	9,462	-	-				(96,210)
Hawaii Community Development Authority	32,272	3,369	-	-				(28,903)
Hawaii Hurricane Relief Fund	5	-	-	-				(5)
Total component units	$ 2,678,651	$ 1,015,221	$ 570,666	$ 43,964				(1,048,800)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,991,792	-	2,991,792	-
Net income tax — corporations and individuals					1,795,683	-	1,795,683	-
Public service companies tax					163,930	-	163,930	-
Transient accommodations tax					186,377	-	186,377	104,000
Tobacco and liquor taxes					161,066	-	161,066	-
Liquid fuel tax					87,645	-	87,645	-
Tax on premiums of insurance companies					133,585	-	133,585	-
Vehicle weight and registration tax					121,605	-	121,605	-
Rental motor/tour vehicle surcharge tax					52,112	-	52,112	-
Franchise tax					22,673	-	22,673	-
Other tax					80,081	-	80,081	-
Interest and investment income					25,502	14,633	40,135	34,154
Payments from the State — net					-	-	-	874,541
Other					-	19,000	19,000	39,421
Total general revenues					5,822,051	33,633	5,855,684	1,052,116
CHANGE IN NET POSITION					(84,365)	391,477	307,112	3,316
NET POSITION — Beginning of year					1,329,901	3,175,892	4,505,793	3,180,800
NET POSITION — End of year					$ 1,245,536	$ 3,567,369	$ 4,812,905	$ 3,184,116

See accompanying notes to basic financial statements.

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STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 76,050	$ 7,595	$ 1,427	$ 109,506	$ 194,578
RECEIVABLES:					
Taxes	461,846	-	-	-	461,846
Notes and loans — net	1,440	-	-	74,303	75,743
Federal government	-	-	103,094	16,700	119,794
Other	8,763	-	-	-	8,763
DUE FROM OTHER FUNDS	120,748	-	-	63	120,811
DUE FROM PROPRIETARY FUNDS	-	1,597	-	-	1,597
DUE FROM COMPONENT UNITS	23,800	-	-	-	23,800
INVESTMENTS	1,102,679	139,657	22,353	1,059,699	2,324,388
OTHER ASSETS	932	-	-	-	932
TOTAL ASSETS	$ 1,796,258	$ 148,849	$ 126,874	$ 1,260,271	$ 3,332,252
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 105,252	$ 97,368	$ 16,300	$ 93,659	$ 312,579
Other accrued liabilities	250,459	12,430	99,194	36,489	398,572
Due to federal government	-	-	-	37,145	37,145
Due to other funds	63	89,900	10,500	20,348	120,811
Due to Component Units	1,601	512,667	-	-	514,268
Unearned revenue	13,610	-	-	-	13,610
Payable from restricted assets — matured bonds and interest payable	-	-	-	235	235
Total liabilities	370,985	712,365	125,994	187,876	1,397,220
FUND BALANCES:					
Restricted	-	-	-	21,854	21,854
Committed	-	-	-	486,240	486,240
Assigned	271,020	-	880	611,882	883,782
Unassigned	1,154,253	(563,516)	-	(47,581)	543,156
Total fund balances	1,425,273	(563,516)	880	1,072,395	1,935,032
TOTAL	$ 1,796,258	$ 148,849	$ 126,874	$ 1,260,271	$ 3,332,252

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 1,935,032
Amounts reported for governmental activities in the Statement of Net Position 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	2,232,588
Infrastructure	9,046,606
Construction in progress	864,716
Buildings, improvements, and equipment	4,469,612
Accumulated depreciation	(7,684,193)
	8,929,329
Accrued interest and other payables are not recognized in Governmental Funds	(564,033)
Other assets are not available to pay for current-period expenditures and are not recognized in governmental funds, such as unearned revenue and settlement receivables	463,673
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	(5,534,921)
Accrued vacation payable	(220,773)
Revenue bonds payable	(441,150)
Reserve for losses and loss adjustment costs	(155,138)
Other postemployment benefit liability	(3,066,452)
Long-term transactions with Component Units	(10,152)
Capital lease obligations	(89,879)
	(9,518,465)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 1,245,536

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, 2013
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$ 2,991,792	$ -	$ -	$ -	$ 2,991,792
Net income tax — corporations and individuals	1,804,409	-	-	-	1,804,409
Public service companies tax	163,930	-	-	-	163,930
Transient accommodations tax	185,377	-	-	1,000	186,377
Tobacco and liquor taxes	143,141	-	-	17,925	161,066
Liquid fuel tax	-	-	-	87,645	87,645
Tax on premiums of insurance companies	131,906	-	-	1,679	133,585
Vehicle weight and registration tax	-	-	-	121,605	121,605
Rental motor/tour vehicle surcharge tax	4,519	-	-	47,593	52,112
Franchise tax	20,673	-	-	2,000	22,673
Other	51,571	-	-	28,508	80,079
Total taxes	5,497,318	-	-	307,955	5,805,273
Interest and investment income	12,424	-	-	13,078	25,502
Charges for current services	122,252	-	-	247,017	369,269
Intergovernmental	13,708	-	914,647	1,444,125	2,372,480
Rentals	276	-	-	28,357	28,633
Fines, forfeitures, and penalties	22,343	-	-	14,459	36,802
Licenses and fees	6,465	-	-	40,374	46,839
Revenues from private sources	2,423	-	40,501	61,746	104,670
Other	106,795	-	69,320	59,401	235,516
Total revenues	5,784,004	-	1,024,468	2,216,512	9,024,984
EXPENDITURES:					
Current:					
General government	322,464	29,260	-	56,814	408,538
Public safety	291,855	10,774	-	129,395	432,024
Highways	-	170,196	-	248,795	418,991
Conservation of natural resources	28,260	4,522	-	59,819	92,601
Health	521,592	50,907	-	207,256	779,755
Welfare	1,102,912	1,415	1,003,616	665,298	2,773,241
Lower education	1,741,202	181,007	-	436,554	2,358,763
Higher education	518,486	136,125	-	-	654,611
Other education	5,737	-	-	14,349	20,086
Culture and recreation	38,979	24,491	-	44,470	107,940
Urban redevelopment and housing	294	3,038	-	62,911	66,243
Economic development and assistance	25,876	39,459	-	92,133	157,468
Housing	19,378	93,236	-	-	112,614
Other	23,243	-	-	9,473	32,716
Debt service	-	-	-	687,649	687,649
Total expenditures	4,640,278	744,430	1,003,616	2,714,916	9,103,240
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,143,726	(744,430)	20,852	(498,404)	(78,256)
OTHER FINANCING SOURCES (USES):					
Issuance of GO and refunding GO bonds - par	-	470,000	-	396,990	866,990
Issuance of of GO and refunding GO bonds - premium	93,476	-	-	106,382	199,858
Payment to refunded bond escrow agent	-	-	-	(503,372)	(503,372)
Transfers in	77,451	129,953	8,356	818,157	1,033,917
Transfers out	(696,818)	(32,049)	(31,761)	(273,289)	(1,033,917)
Total other financing (uses) sources	(525,891)	567,904	(23,405)	544,868	563,476
NET CHANGE IN FUND BALANCES	617,835	(176,526)	(2,553)	46,464	485,220
FUND BALANCES — Beginning of year	807,438	(386,990)	3,433	1,025,931	1,449,812
FUND BALANCES — End of year	$ 1,425,273	$ (563,516)	$ 880	$ 1,072,395	$ 1,935,032

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, 2013
(Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ 485,220
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	477,260
Depreciation expense	(388,707)
Excess of capital outlay over depreciation expense	88,553
Debt proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, this is the amount of proceeds received from general obligation bonds issued.	(1,066,848)
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 position. In the current year, these amounts consist of:	
Bond principal retirement	834,447
Capital lease payments	5,461
Total long-term debt repayment	839,908
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	(18,111)
Bond issue costs in Governmental Funds - reported in the statement of net position - net of amortization.	110,525
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 postemployment liability	(535,482)
Change in accrued vacation payable	(7,990)
Change in HHFDC long-term liability	5,098
Change in reserve for losses and loss adjustment costs	14,762
Total	(523,612)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ (84,365)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
JUNE 30, 2013
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 571,172	$ 133,218	$ 193,707	$ 226,437	$ 1,124,534
Restricted assets — cash and short-term investments	68,757	33,659	-	-	102,416
Receivables:					
Taxes	356	-	116,829	-	117,185
Accounts and accrued interest (net of allowance for doubtful accounts of $4,914)	16,571	9,302	-	747	26,620
Promissory note receivable (net of allowance for doubtful accounts of $4,287)	5	-	-	30,563	30,568
Federal government	8,764	936	-	594	10,294
Premiums	-	-	-	67,896	67,896
Other	1,416	429	-	3,759	5,604
Materials and supplies inventory	166	62	-	-	228
Prepaid expenses and other assets	-	843	-	5,355	6,198
Total current assets	667,207	178,449	310,536	335,351	1,491,543
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	1,263,925	530,443	-	-	1,794,368
Construction in progress	377,086	38,476	-	-	415,562
Buildings and improvements	1,697,221	435,311	-	-	2,132,532
Equipment	279,874	21,775	-	11,271	312,920
	3,618,106	1,026,005	-	11,271	4,655,382
Less accumulated depreciation	(1,829,500)	(286,551)	-	(6,252)	(2,122,303)
Net capital assets	1,788,606	739,454	-	5,019	2,533,079
Bond issue costs — net	3,926	3,403	-	-	7,329
Promissory note receivable	-	-	-	336,269	336,269
Restricted assets — net direct financing leases	30,302	-	-	-	30,302
Restricted assets — cash and cash equivalents	454,503	228,219	-	-	682,722
Restricted assets — investments	96,893	-	-	-	96,893
Other	8,965	276	-	12,198	21,439
Total noncurrent assets	2,383,195	971,352	-	353,486	3,708,033
TOTAL ASSETS	$ 3,050,402	$ 1,149,801	$ 310,536	$ 688,837	$ 5,199,576

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
JUNE 30, 2013
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 23,546	$ 9,197	$ 272	$ 618	$ 33,633
Payable from restricted assets — contracts payable, accrued interest, and other	39,910	17,252	-	-	57,162
Other accrued liabilities	6,383	-	-	1,811	8,194
Due to Primary Government	-	1,597	-	-	1,597
Benefit claims payable	-	-	-	2,665	2,665
Prepaid airport use charge fund	2,865	-	-	-	2,865
Unearned revenue	6,671	-	-	-	6,671
General obligation bonds payable, current portion	-	1,758	-	-	1,758
Reserve for losses and loss adjustment costs	869	134	-	-	1,003
Accrued vacation, current portion	2,986	617	-	150	3,753
Payable from restricted assets — revenue bonds payable	41,275	12,523	-	-	53,798
Premiums payable	-	-	-	35,771	35,771
Total current liabilities	124,505	43,078	272	41,015	208,870
NONCURRENT LIABILITIES:					
General obligation bonds payable	-	31,176	-	-	31,176
Accrued vacation	6,604	1,571	-	551	8,726
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	924,320	347,994	-	-	1,272,314
Reserve for losses and loss adjustment costs	3,131	681	-	-	3,812
Other postemployment benefit liability	54,344	10,990	-	3,090	68,424
Prepaid airport use charge fund	37,932	-	-	-	37,932
Other	953	-	-	-	953
Total long-term liabilities	1,027,284	392,412	-	3,641	1,423,337
TOTAL LIABILITIES	1,151,789	435,490	272	44,656	1,632,207
NET POSITION					
NET INVESTMENT IN CAPITAL ASSETS	1,077,045	517,419	-	5,019	1,599,483
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	381,987	93,625	-	592,534	1,068,146
UNRESTRICTED	439,581	103,267	310,264	46,628	899,740
NET POSITION	$ 1,898,613	$ 714,311	$ 310,264	$ 644,181	$ 3,567,369

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 151,391	$ -	$ -	$ -	$ 151,391
Unemployment compensation	-	-	507,096	-	507,096
Aviation fuel tax	4,674	-	-	-	4,674
Airport use charges	59,874	-	-	-	59,874
Rentals	117,600	27,922	-	-	145,522
Services and others	1	82,622	-	-	82,623
Administrative fees	-	-	-	9,887	9,887
Premium revenue — self insurance	-	-	-	50,843	50,843
Increase in premium reserves	-	-	-	39,540	39,540
Other	5,047	2,127	-	2,913	10,087
Total operating revenues	338,587	112,671	507,096	103,183	1,061,537
OPERATING EXPENSES:					
Personnel services	136,591	16,158	-	5,537	158,286
Depreciation and amortization	92,231	22,751	-	1,469	116,451
Repairs and maintenance	32,288	2,462	-	79	34,829
Airports operations	57,217	-	-	-	57,217
Harbors operations	-	18,192	-	-	18,192
Fireboat operations	-	1,492	-	-	1,492
General administration	17,919	8,896	-	3,948	30,763
Unemployment compensation	-	-	336,931	-	336,931
Claims	-	-	-	46,819	46,819
Other	290	-	-	53	343
Total operating expenses	336,536	69,951	336,931	57,905	801,323
Business interruption insurance recovery	19,000	-	-	-	19,000
Operating income	21,051	42,720	170,165	45,278	279,214
NONOPERATING REVENUES (EXPENSES):					
Interest and investment income	7,661	1,969	2,949	2,054	14,633
Interest expense	(30,382)	(20,592)	-	-	(50,974)
Federal grants	5,039	-	-	-	5,039
Loss on disposal of capital assets	-	(5)	-	-	(5)
Passenger facility charges	35,333	-	-	-	35,333
Other	57,788	(611)	-	(8,214)	48,963
Total nonoperating revenues (expenses)	75,439	(19,239)	2,949	(6,160)	52,989
INCOME BEFORE CAPITAL CONTRIBUTIONS	96,490	23,481	173,114	39,118	332,203
CAPITAL CONTRIBUTIONS	25,580	4,115	-	29,579	59,274
CHANGE IN NET POSITION	122,070	27,596	173,114	68,697	391,477
NET POSITION - Beginning of year	1,776,543	686,715	137,150	575,484	3,175,892
NET POSITION — End of year	$ 1,898,613	$ 714,311	$ 310,264	$ 644,181	$ 3,567,369

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 354,191	$ 112,321	$ -	$ -	$ 466,512
Cash received from taxes	-	-	366,943	-	366,943
Cash received from employer and employees for premiums and benefits	-	-	-	487,681	487,681
Cash paid to suppliers	(160,057)	(27,386)	-	(4,258)	(191,701)
Cash paid to employees	(70,486)	(13,725)	-	(4,611)	(88,822)
Cash paid for unemployment compensation	-	-	(337,164)	-	(337,164)
Cash paid for premiums and benefits payable	-	-	-	(486,285)	(486,285)
Reserves returned by insurance carriers	-	-	-	15,914	15,914
Interest income from notes receivable	-	-	-	2,892	2,892
Administrative loan fees	-	-	-	4,245	4,245
Principal repayments on notes receivable	-	-	-	61,655	61,655
Disbursement of note receivable proceeds	-	-	-	(31,852)	(31,852)
Other cash receipts	-	-	113,493	-	113,493
Net cash provided by operating activities	123,648	71,210	143,272	45,381	383,511
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State capital contributions	-	-	-	5,872	5,872
Proceeds from federal operating grants	4,639	-	-	23,353	27,992
Disbursements of federal operating grants	-	-	-	(2,949)	(2,949)
Other	-	(610)	-	-	(610)
Net cash provided by (used in) noncapital financing activities	4,639	(610)	-	26,276	30,305
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(72,175)	(50,952)	-		(123,127)
Repayment of general obligation and revenue bonds principal	(27,545)	(13,718)	-	-	(41,263)
Interest paid on bonds	(45,072)	(21,171)	-	-	(66,243)
Proceeds from passenger facility charges program	35,579	-	-	-	35,579
Proceeds from rental car customer facility charges program	50,495	-	-	-	50,495
Payments from rental car customer facility charges program	(17,718)	-	-	-	(17,718)
Payments from passenger facility charges program	(16,702)	-	-	-	(16,702)
Proceeds from federal, state, and capital grants	22,618	9,548	-	-	32,166
Net cash used in capital and related financing activities	(70,520)	(76,293)	-	-	(146,813)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	(193,786)	-	-	-	(193,786)
Proceeds from sales and maturities of investments	193,786	-	-	-	193,786
Interest from and change in fair value of investments	6,695	1,972	2,949	1,988	13,604
Net cash provided by investing activities	6,695	1,972	2,949	1,988	13,604
NET INCREASE IN CASH AND CASH EQUIVALENTS	64,462	(3,721)	146,221	73,645	280,607
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — beginning of the year	1,029,970	398,817	47,486	152,792	1,629,065
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — end of year	$ 1,094,432	$ 395,096	$ 193,707	$ 226,437	$ 1,909,672

See accompanying notes to basic financial statements

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income	$ 21,051	$ 42,720	$ 170,165	$ 45,278	$ 279,214
Adjustments to reconcile operating income to net cash provided by operating activities:					
Provision for uncollectible accounts	-	104	-	-	104
Depreciation	92,231	22,614	-	1,469	116,314
Other amortization	-	138	-	-	138
Bad debt expense	580	-	-	-	580
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	126	-	-	-	126
Premium reserves held by insurance companies	-	-	-	(36,405)	(36,405)
Principal forgiveness of loans	-	-	-	(1,000)	(1,000)
Decrease (increase) in assets:					
Receivables	1,178	(530)	(26,660)	31,720	5,708
Inventory of materials and supplies	47	183	-	-	230
Deposits	-	-	-	11,456	11,456
Prepaid expenses	-	-	-	(101)	(101)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	543	3,281	(233)	(73)	3,518
Other accrued liabilities	14,178	2,700	-	(2,142)	14,736
Prepaid airport use charge fund	(7,445)	-	-	-	(7,445)
Unearned revenue	1,159	-	-	-	1,159
Benefit Claims Payable	-	-	-	(4,821)	(4,821)
Net cash provided by operating activities	$ 123,648	$ 71,210	$ 143,272	$ 45,381	$ 383,511

Supplemental Information

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond premium, and loss on refunding	$ (3,354)	$ (342)	$ -	$ -	$ (3,696)
Interest payments relating to special facility revenue bonds	1,872	-	-	-	1,872
Payments to refund airport system revenue bonds	905	-	-	-	905

See accompanying notes to basic financial statements.

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013
(Amounts in thousands)

	Agency Funds	OPEB Trust Fund
ASSETS		
CASH AND CASH EQUIVALENTS	$ 216,683	$ 314,778
RECEIVABLES — taxes	39,078	-
INVESTMENTS	395,971	-
OTHER ASSETS — primarily due from individuals, businesses, and counties	31,653	-
TOTAL	$ 683,385	$ 314,778
LIABILITIES AND NET ASSETS		
LIABILITIES		
VOUCHERS PAYABLE	$ 9,714	$ -
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	673,671	-
OTHER ACCRUED LIABILITIES	-	14
TOTAL LIABILITIES	683,385	14
NET POSITION	$ -	$ 314,764

See accompanying notes to basic financial statements.

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION - OPEB TRUST FUND
JUNE 30, 2013
(Amounts in thousands)

	OPEB TRUST FUND
ADDITIONS	
Employer pre-funding contributions and related net investment earnings	$ 314,764
Net increase in net assets	314,764
Beginning fiduciary net position	-
Ending fiduciary net position	$ 314,764

See accompanying notes to basic financial statements.

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STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET POSITION
JUNE 30, 2013
(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	$ 78,704	$ 179,849	$ 65,342	$ 34,308
RECEIVABLES:				
Accounts and accrued interest (net of allowance for doubtful accounts of $39,798)	96,789	16,194	471	84,029
Notes, loans, mortgages, and contributions allowance for doubtful accounts)	15,266	73,829	-	-
Federal government	-	-	2,507	-
Other (net of allowance for doubtful accounts of $2)	-	2,568	953	31,744
DUE FROM PRIMARY GOVERNMENT	329	7,000	97,990	63,397
INVESTMENTS	298,841	1,024	-	7,071
INVENTORIES:				
Developments in progress and dwelling units	-	24,174	-	-
Materials and supplies	12,288	-	973	18,677
PREPAID EXPENSES AND OTHER ASSETS	24,013	417	2,108	-
	526,230	305,055	170,344	239,226
RESTRICTED ASSETS:				
Cash and cash equivalents	-	68,492	-	3,191
Investments	-	111,431	-	-
Deposits, funded reserves, and other	-	533	-	-
Total restricted assets	-	180,456	-	3,191
CAPITAL ASSETS:				
Land and land improvements	137,052	43,290	25,340	6,535
Infrastructure	149,100	-	-	-
Construction in progress	397,825	-	27,423	56,418
Buildings, improvements, and equipment	2,489,985	158,524	578,847	593,273
Less accumulated depreciation	(1,146,842)	(110,073)	(332,999)	(315,935)
Total capital assets — net	2,027,120	91,741	298,611	340,291
OTHER ASSETS:				
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts $7,786)	24,637	435,363	8,131	-
Due from Primary Government	337,674	10,152	-	-
Investments	468,120	6,709	-	-
Other assets	23,591	1,396	-	1,483
Total other assets	854,022	453,620	8,131	1,483
TOTAL ASSETS	$ 3,407,372	$ 1,030,872	$ 477,086	$ 584,191

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 12,610	$ 20,023	$ 444	$ 391,280
-	497	83	198,063
-	-	-	89,095
-	-	-	2,507
1,110	2,649	-	39,024
-	7,878	-	176,594
4,499	-	20,586	332,021
-	-	-	24,174
-	-	-	31,938
107	7	-	26,652
18,326	31,054	21,113	1,311,348
10,809	-	-	82,492
-	-	-	111,431
-	-	-	533
10,809	-	-	194,456
131,497	135,257	-	478,971
-	44,314	-	193,414
2,114	3,649	-	487,429
215,813	19,757	-	4,056,199
(118,924)	(52,618)	-	(2,077,391)
230,500	150,359	-	3,138,622
-	17,000	-	485,131
-	-	-	347,826
31,434	-	-	506,263
-	382	-	26,852
31,434	17,382	-	1,366,072
$ 291,069	$ 198,795	$ 21,113	$ 6,010,498

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET POSITION
JUNE 30, 2013
(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	$ 76,431	$ 901	$ 5,809	$ 115,723
Other accrued liabilities	90,037	10,817	3,775	-
Due to Primary Government	6,000	-	-	2,000
Unearned revenue	38,497	22,871	480	-
Estimated future costs of land sold	-	35,347	-	-
Notes, mortgages, and installment contracts payable	-	63	-	1,589
Accrued vacation and retirement benefits payable	27,208	-	-	16,143
Revenue bonds payable — net	14,740	68,541	-	-
Reserve for losses and loss adjustment costs	5,421	-	-	3,315
Capital lease obligations	-	-	-	8,512
Other liabilities	11,420	1,909	880	1,750
Total current liabilities	269,754	140,449	10,944	149,032
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	16,500	5,517	-	33,348
Accrued vacation and retirement benefits payable	43,550	-	-	24,199
Revenue bonds payable — net	593,930	322,107	-	-
Reserve for losses and loss adjustment costs	9,277	-	-	10,424
Premium on bonds payable	4,703	-	-	-
Capital lease obligations	-	-	-	18,013
Due to Primary Government	555	-	-	15,800
Other postemployment benefit liability	514,364	3,231	12,415	267,115
Other liabilities	17,014	291	1,509	23,229
Total noncurrent liabilities	1,199,893	331,146	13,924	392,128
TOTAL	1,469,647	471,595	24,868	541,160
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	1,492,599	25,035	298,610	287,829
RESTRICTED	733,922	163,714	3,851	349
UNRESTRICTED (DEFICIT)	(288,796)	370,528	149,757	(245,147)
TOTAL NET POSITION	$ 1,937,725	$ 559,277	$ 452,218	$ 43,031

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 4,662	$ 1,560	$ 319	$ 205,405
105	144	-	104,878
19,782	-	-	27,782
-	53	-	61,901
-	-	-	35,347
-	-	-	1,652
124	98	-	43,573
-	-	-	83,281
-	-	-	8,736
-	-	-	8,512
-	1,274	-	17,233
24,673	3,129	319	598,300
-	-	-	55,365
352	393	-	68,494
-	-	-	916,037
-	-	-	19,701
-	-	-	4,703
-	-	-	18,013
261,301	4	-	277,660
1,824	1,393	-	800,342
-	25,724	-	67,767
263,477	27,514	-	2,228,082
288,150	30,643	319	2,826,382
(3,760)	150,358	-	2,250,671
6,679	7,614	-	916,129
-	10,180	20,794	17,316
$ 2,919	$ 168,152	$ 20,794	$ 3,184,116

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,648,158	$ 52,770	$ 125,850	$ 713,924
PROGRAM REVENUES:				
Charges for services	384,387	49,985	18,014	550,004
Operating grants and contributions	482,619	12,570	72,422	3,055
Capital grants and contributions	-	-	12,466	31,498
Total program revenues	867,006	62,555	102,902	584,557
Net program revenues (expenses)	(781,152)	9,785	(22,948)	(129,367)
GENERAL REVENUES (EXPENSES):				
Interest and investment income (loss)	32,206	1,200	-	309
Transient accommodations tax	-	-	-	-
Payments from (to) the State	675,155	5,000	100,824	86,027
Other	39,393	-	2,311	(2,283)
Net general revenues (expenses)	746,754	6,200	103,135	84,053
Change in net assets	(34,398)	15,985	80,187	(45,314)
NET POSITION — Beginning of year	1,972,123	543,292	372,031	88,345
NET POSITION — End of year	$ 1,937,725	$ 559,277	$ 452,218	$ 43,031

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 105,672	$ 32,272	$ 5	$ 2,678,651
9,462	3,369	-	1,015,221
-	-	-	570,666
-	-	-	43,964
9,462	3,369	-	1,629,851
(96,210)	(28,903)	(5)	(1,048,800)
(276)	676	39	34,154
104,000	-	-	104,000
(1,000)	8,854	(319)	874,541
-	-	-	39,421
102,724	9,530	(280)	1,052,116
6,514	(19,373)	(285)	3,316
(3,595)	187,525	21,079	3,180,800
$ 2,919	$ 168,152	$ 20,794	$ 3,184,116

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 State's significant 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 University of Hawaii ("UH" or the "University") is Hawaii's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 385 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui, and Kauai, UH offers more than 279 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the UH system houses more than a hundred centers with research and service activities at hundreds of Hawaii schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries. Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of UH.

Hawaii Housing Finance and Development Corporation — Hawaii Housing Finance and Development Corporation (HHFDC) is a corporate body placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. Act 196, Session Laws of Hawaii (SLH) of 2005, as amended by Act 180, SLH of 2006, created the HHFDC. 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 — Act 196, SLH of 2005, as amended by Act 180, SLH of 2006, created the Hawaii Public Housing Authority ("HPHA" or the "Authority").

The Authority is administratively attached to the Department of Human Services. Its mission is to provide safe, decent and sanitary dwelling for low and moderate income residents of Hawaii and to operate its housing program in accordance with federal and State laws and regulations.

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) is a public body corporate and politic and an instrumentally and agency of the State. HHSC is managed by a chief executive officer under the control of a 13-member board of directors.

Act 262, SLH of 1996, which became effective in fiscal year 1997, transferred all facilities under the administration of the Department of Health — Division of Community Hospitals to HHSC. HHSC operates the following facilities:

East Hawaii Region:
Hilo Medical Center
Hale Hoʻola Hamakua
Kaʻu Hospital
Yukio Okutsu Veterans Care Home

West Hawaii Region:
Kona Community Hospital
Kohala Hospital

Kauai Region:
Kauai Veterans Memorial Hospital
Samuel Mahelona Memorial Hospital

Maui Region:
Maui Memorial Medical Center
Kula Hospital
Lanai Community Hospital

Oahu Region:
Leahi Hospital
Maluhia

Kahuku Medical Center

Act 262 also amended a previous act to exempt all facilities from the obligation to pay previously allocated central service and departmental administration expenses by the State.

HHSC is considered to be administratively attached to the Department of Health of the State and is a component unit of the State. Hawaii Health Systems Foundation (HHSF) and Alii Community Care, Inc. (Alii) are nonprofit organizations of which HHSC is the sole member. The purpose of HHSF is to raise funds and obtain gifts and grants on behalf of HHSC. The purpose of Alii is to own, manage, and operate assisted living and other healthcare facilities in the State.

Act 290, SLH of 2007, which became effective July 1, 2007, required the establishment of a seven to 15 member regional system board of directors for each of the five regions of the HHSC system. Each regional board was given custodial control and responsibility for management of the facilities and other assets in their respective regions. This Act also restructured the 13-member HHSC board of directors to 15 members, comprised of 10 members appointed by the governor from nominees submitted by legislative leadership, two at-large members at the governor's discretion, two physician members selected by the HHSC board, and the State Director of Health.

Act 290 also exempted the regions from the requirements of the State procurement code and other exemptions from State agency laws, such as tax clearance certificate requirements, the concession law, and the sunshine law.

Act 182, SLH of 2009, effective July 1, 2009, allowed the individual facilities or regions of HHSC to transition into a new legal entity in any form recognized under the laws of the State of Hawaii, including but not limited to a nonprofit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The act also amended the requirement for maintenance of services to outline a process that must be followed in order for a facility to substantially reduce or eliminate a direct patient care service. Further, the Act reconstituted the HHSC board of directors to a 12-member board of directors which includes the five regional chief executive officers, one representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards, two members appointed by the Maui regional board, and the Director of the Department of Health as an ex-officio non-voting member.

Act 126, SLH of 2011, effective July 1, 2011, reconstituted the HHSC board of directors to a 13-member board of directors by adding an at-large voting member appointed by the governor of the State of Hawaii and changing the voting status of the Director of the Department of Health from non-voting to voting member.

In June 2013, the Legislature passed Act 278, H.B. 1130, effective July 2013, which reconstituted the HHSC board of directors by adding five regional members appointed by the governor and making the five regional chief executive officers ex-officio, nonvoting members.

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 (the "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 12 voting members. The governor appoints the 12 voting members.

Hawaii Community Development Authority — The Hawaii Community Development Authority (HCDA) was established as a body corporate and a public instrumentality of the State of Hawaii which is attached to 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, Kalaeloa, and He‘eia Community Development Districts.

The HCDA was established by HRS Chapter 206E, to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in urban areas in the State.

The HCDA is comprised of 16 (five regular members, one member who votes only on Kalaeloa matters, one member who votes only on Kaka`ako and He`eia matters, three members who vote only on Kaka`ako matters, three members who vote only on Kalaeloa matters, and three members who vote only on He`eia matters) voting members who, as a body, oversee the HCDA’s operations and establish policies to implement its legislative objectives. The board is required to report annually to the State Legislature and the Governor. The 16 member board is comprised of the following:

- Five members that vote on issued related to Kaka`ako, Kalaeloa and He`eia:
  - 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, as an Ex Officio voting member,
  - The Director of Transportation, as an Ex Officio voting member, and
  - One member who is a cultural expert.
- The Chairperson of the Hawaiian Homes Commission who votes only on issues related Kalaeloa.
- One member appointed by the Governor that votes only on issues related to Kaka`ako and He`eia.
- Three members appointed by the Governor that vote only on issues related to Kaka`ako:
  - All three members are selected by the Governor from a list of names submitted by the Honolulu City Council.
- Three members appointed by the Governor that vote only on issues related to Kalaeloa:
  - All three members are selected by the Governor from a list of names submitted by the Honolulu City Council.
- Three members appointed by the Governor that vote only on issued related to He`eia:
  - All three members shall be residents of the He`eia community development district or the Koolaupoko district.

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.

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 (DAGS), 1151 Punchbowl Street, Room 400, Honolulu, Hawaii 96813.

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 Position 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 financial 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 position is restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net position is 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 position. 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.

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.

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.

- Med-Quest Special Revenue Fund — This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

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. This fund also accounts for financial resources obtained and used to refund existing debt.

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 Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Treatment Revolving 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 the construction of drinking water treatment facilities.

Fiduciary Fund Types

- Agency Funds — Agency Funds account for retiree healthcare benefits, which includes medical, dental, and life insurance coverage as well as, various taxes, deposits, and property held by the State, pending distribution to other governments and individuals.

- Other Post-Employment Benefit (“OPEB”) Trust Fund - Accounts for plan assets and related expenses from the pre-funding contributions made by the State and counties. The OPEB Trust Fund meets the criteria for plans that are administered as trusts, or equivalent arrangements.

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 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.

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 and time certificates of deposit are carried at fair value based on quoted market prices. Investments in 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.

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, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net position. 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. 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 Position and Fund Balance — In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net position is reported in three categories: net position invested in capital assets, net of related debt; restricted net position; and unrestricted net position. Restricted net position represents net position 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.

The State classifies fund balance based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- *Restricted* — Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

- *Committed* — Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State's Legislature, the highest level of decision-making authority. Committed amounts cannot be used for other than the specified purposes unless the Legislature changes the specified purpose.

- *Assigned* — Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed. In contrast to the restricted and committed balances, the authority for making an assignment is not required to be made by the State's Legislature.

- *Unassigned* — Residual balances that are not contained in the other classifications.

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 $1,000,000 per occurrence of property losses, the first $4,000,000 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 $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss, and terrorism, which is $50,000,000 per occurrence. The annual aggregate limit for general liability losses is $15,000,000 per occurrence and for crime losses, the limit per occurrence is $10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of $35,000,000 per occurrence and $39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automoobile 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.

Newly Issued Accounting Pronouncements

GASB Statement No. 60 — The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which became effective for fiscal years beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 61 — The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, which became effective for fiscal years beginning after June 15, 2012. This Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 62 — The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which became effective for reporting periods beginning after December 15, 2011. The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") pronouncements. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 63 — The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which became effective for financial statements for periods beginning after December 15, 2011. GASB Statement No. 63 provides financial statement presentation guidance for these elements; however, it does not identify any additional items that should be recognized within these element classifications. GASB Statement No. 63 only will apply to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources. This Statement did not have a material effect on the State's financial statements.

GASB Statement No. 65 — The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will become effective for financial statements for periods beginning after December 15, 2012. This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources or inflows of resources. The State is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 66 — The GASB issued Statement No. 66, *Technical Corrections — 2012 — an Amendment of GASB Statements No. 10 and No. 62*, which will become effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to resolve conflicting accounting and financial reporting guidance between previously issued statements. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 67 — The GASB issued Statement No. 67 - *Financial Reporting for Pension plans; an Amendment of GASB Statement No. 25*, which will become effective for financial periods beginning after June 15, 2013. This statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The ERS, which is administered on behalf of public employees for both the State and county governments, is excluded from the State's reporting entity; therefore, the State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 68 — GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* which will become effective for financial statements for fiscal years beginning after June 15, 2014. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement replaces the requirements of GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of GASB No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of GASB No. 27 and GASB No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The State is currently evaluating the impact that GASB No. 68 will have on its financial statements.

GASB Statement No. 69 – The GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which will become effective for financial statements for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 70 – The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which will become effective for reporting periods beginning after June 15, 2013. This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees). The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 71 – The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*, which should be applied simultaneously with the provisions of GASB No. 68. GASB No. 71 amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of GASB No. 68 by employers and nonemployer contributing entities. The State is currently evaluating the impact that this statement will have on its financial statements.

2. 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, auction rate securities, 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, 2013, was $1,319,112,000 and $912,333,000, respectively, for the Primary Government and unrestricted cash for the Fiduciary Funds as of June 30, 2013, was $531,461,000.

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 approximately $2,233,878,000 at June 30, 2013. Of that amount, approximately $2,223,778,000 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. Bank balances of $193,257,000 represent 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.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance. The pool's investment options are limited to investments listed in the Hawaii

Revised Statutes. As of June 30, 2013, the State had material investments in repurchase agreements. According to the Department of Budget and Finance, the repurchase agreement investment contracts are valued on the cost basis.

At the end of each year the Department of Budget and Finance ("Budget and Finance") allocates the investment pool amount to each of the participants including those participants who are part of the Proprietary Fund and Fiduciary Fund. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The following tables present the State's investments and maturities at June 30, 2013 (amounts expressed in thousands).

		Maturity (in Years)		
	Fair Value	**Less than 1**	**1–5**	**>5**
Investments — Primary Government:				
Certificates of deposit	$ 976,243	$ 878,619	$ 97,624	$ -
U.S. government securities	1,092,462	567,854	320,667	203,941
Repurchase agreements	255,683	219,887	35,796	-
	$ 2,324,388	$ 1,666,360	$ 454,087	$ 203,941
Investments — Fiduciary Funds:				
Certificates of deposit	$ 166,308	$ 149,677	$ 16,631	$ -
U.S. government securities	186,106	99,614	50,716	35,776
Repurchase agreements	43,557	37,459	6,098	-
	$ 395,971	$ 286,750	$ 73,445	$ 35,776

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 maintaining a Triple-A rating.

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.

3. CAPITAL ASSETS

For the fiscal year ended June 30, 2013, 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, 2012	Additions	Deductions	Balance — June 30, 2013
Capital assets not being depreciated:				
Land and land improvements	$ 2,207,145	$ 25,443	$ -	$ 2,232,588
Construction in progress	707,883	386,038	(229,205)	864,716
Total capital assets not being depreciated	2,915,028	411,481	(229,205)	3,097,304
Capital assets being depreciated:				
Infrastructure	8,915,933	130,673	-	9,046,606
Buildings and improvements	3,919,334	145,886	(274)	4,064,946
Equipment	385,967	29,019	(10,320)	404,666
Total capital assets being depreciated	13,221,234	305,578	(10,594)	13,516,218
Less accumulated depreciation:				
Infrastructure	(4,918,285)	(225,882)	-	(5,144,167)
Buildings and improvements	(2,071,343)	(140,626)	-	(2,211,969)
Equipment	(313,285)	(22,199)	7,427	(328,057)
Total accumulated depreciation	(7,302,913)	(388,707)	7,427	(7,684,193)
Total capital assets	$ 8,833,349	$ 328,352	$ (232,372)	$ 8,929,329

	Business-Type Activities			
	Balance — July 1, 2012	Additions	Deductions	Balance — June 30, 2013
Capital assets not being depreciated:				
Land and land improvements	$ 585,215	$ 20,700	$ -	$ 605,915
Construction in progress	394,123	150,106	(128,667)	415,562
Total capital assets not being depreciated	979,338	170,806	(128,667)	1,021,477
Capital assets being depreciated:				
Land and improvements	1,175,429	13,024	-	1,188,453
Buildings and improvements	2,074,723	57,819	(10)	2,132,532
Equipment	254,958	59,358	(1,396)	312,920
Total capital assets being depreciated	3,505,110	130,201	(1,406)	3,633,905
Less accumulated depreciation:				
Land and improvements	(749,174)	(33,982)	-	(783,156)
Buildings and improvements	(1,082,382)	(56,905)	-	(1,139,287)
Equipment	(179,695)	(25,427)	5,262	(199,860)
Total accumulated depreciation	(2,011,251)	(116,314)	5,262	(2,122,303)
Total capital assets	$ 2,473,197	$ 184,693	$ (124,811)	$ 2,533,079

Depreciation expense for the fiscal year ended June 30, 2013, was charged to functions/programs of the Primary Government as follows (amounts expressed in thousands):

Governmental activities:	
Highways	$209,650
Lower education	69,893
General government	33,223
Urban redevelopment and housing	22,620
Public safety	19,503
Conservation of natural resources	10,170
Health	7,907
Economic development and assistance	4,446
Welfare	2,369
Culture and recreation	8,926
Total depreciation expense — governmental activities	$388,707
Business-type activities:	
Airports	$ 92,231
Harbors	22,614
EUTF	1,375
DWTLF	10
WPCF	84
Total depreciation expense — business-type activities	$116,314

4. 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 are being retired from the resources of the Proprietary Funds — Airports and Harbors and are recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues, except Series CH, issued November 1, 1993; Series CM, issued December 1, 1996; Series CY, issued February 15, 2002; Series DL and DM, issued May 20, 2008; Series DO and DP, issued December 16, 2008; Series DR, issued June 23, 2009; Series DT and DW, issued November 24, 2009, Series DY, issued February 18, 2010, and Series EC and ED, issued December 7, 2011, contain call provisions. Stated interest rates range from 0.2% to 6.5%.

On December 4, 2012, the State issued $444,000,000 of general obligation bonds, $396,990,000 of general obligation refunding bonds, and $26,000,000 of taxable general obligation bonds of 2012, Series EE, EF, and EG, respectively. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method. Within the newly issued Series EE, EF, and EG, the bonds that mature on or after November 1, 2023 are subject to optional redemption.

Refunding Series EF has an interest rate of 5.0% and was used to advance refund $435,065,000 of certain general obligation bonds previously issued. The net proceeds of $502,244,000 (including a premium of $106,382,000 and after payment of $1,128,000 in underwriting fees and other issuance costs) related to the issuance of Series EF were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds series DD, DE, DF, DI, DJ, DK, and DQ. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advanced refunding, the State decreased its total debt service payments over the next 12 years by $54,861,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $58,967,000.

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, 2013, $828,420,000 of bonds outstanding is considered defeased. At June 30, 2013, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 4,566,320
Noncallable	1,001,535
Total general obligation bonds outstanding	5,567,855
Less amount recorded as a liability of — Proprietary Funds — Harbors	(32,934)
Amount recorded in the governmental activities of the Primary Government	$ 5,534,921

A summary of general obligation bonds outstanding by series as of June 30, 2013, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
CH	November 1, 1993	4.750%	November 1, 2013	$ 250,000	$ 13,885
CM	December 1, 1996	6.500%	December 1, 2013–2016	150,000	33,320
CW	August 1, 2001	4.500%	August 1, 2013	156,750	1,220
CY	February 15, 2002	5.750%	February 1, 2014–2015	319,290	84,685
CZ	November 26, 2002	3.750%	July 1, 2013	300,000	1,945
DA	September 16, 2003	4.000%–5.250%	September 1, 2013–2023	225,000	89,580
DB	September 16, 2003	4.000%–5.250%	September 1, 2013–2016	188,650	85,765
DD	May 13, 2004	4.000%–5.250%	May 1, 2014–2016	225,000	30,635
DE	November 10, 2004	3.375%–5.000%	October 1, 2013–2015	225,000	36,350
DF	June 15, 2005	3.500%–5.000%	July 1, 2013–2025	225,000	71,115
DG	June 15, 2005	5.000%	July 1, 2013–2017	722,575	441,085
DI	March 23, 2006	3.900%–5.000%	March 1, 2014–2026	350,000	90,340
DJ	April 12, 2007	3.700%–5.000%	April 1, 2014–2027	350,000	236,370
DK	May 20, 2008	3.750%–5.000%	May 1, 2014–2028	375,000	337,570
DL	May 20, 2008	3.250%–5.000%	May 1, 2014–2018	29,010	21,405
DM	May 20, 2008	4.670%	May 1, 2014	25,000	4,590
DN	December 16, 2008	3.500%–5.500%	August 1, 2013-2028	100,000	96,115
DO	December 16, 2008	3.250%–5.000%	August 1, 2013-2018	101,825	79,420
DP	December 16, 2008	4.650%–5.680%	August 1, 2013-2016	26,000	18,155
DQ	June 23, 2009	3.600%–5.000%	June 1, 2014-2029	500,000	445,785
DR	June 23, 2009	3.000%–5.000%	June 1, 2014-2019	225,410	203,910
DS	November 5, 2009	0.200%–1.450%	September 15, 2014-2024	32,000	32,000
DT	November 24, 2009	2.250%–5.000%	November 1, 2014-2019	204,140	204,140
DW	November 24, 2009	2.250%–5.000%	November 1, 2013	36,425	36,425
DX	February 18, 2010	3.000%–5.530%	February 1, 2015-2030	500,000	500,000
DY	February 18, 2010	3.000%–5.000%	February 1, 2015-2020	221,625	221,625
DZ	December 7, 2011	3.500%–5.000%	December 1, 2016- 2031	800,000	800,000
EA	December 7, 2011	2.000%- 5.000%	December 1, 2016- 2023	403,455	403,455
EC	December 7, 2011	2.000%- 5.000%	December 1, 2013	56,225	56,225
ED	December 7, 2011	2.000%- 5.000%	December 1, 2015	23,750	23,750
EE	December 4, 2012	1.000%- 5.000%	November 1, 2017-2032	444,000	444,000
EF	December 4, 2012	5.000%	November 1, 2017- 2024	396,990	396,990
EG	December 4, 2012	1.000%- 3.625%	November 1, 2017-2032	26,000	26,000
					$ 5,567,855

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 2013 is as follows (amounts expressed in thousands):

Balance — July 1, 2012	$ 344,857
GO Bond Series EE, EF, and EG	199,858
Defeased Bond Series DD, DE, DF, DI, DJ, DK, and DQ	(17,196)
Current-year amortization	(49,234)
Balance — June 30, 2013	$ 478,285

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
2014	$ 430,556	$ 259,654	$ 690,210
2015	412,116	241,282	653,398
2016	406,473	220,708	627,181
2017	426,177	200,983	627,160
2018	407,573	179,757	587,330
2019—2023	1,592,401	652,856	2,245,257
2024—2028	1,274,654	303,166	1,577,820
2029—2032	584,971	54,441	639,412
	$ 5,534,921	$ 2,112,847	$ 7,647,768

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

Fiscal Year	Principal	Interest	Total
2014	$ 1,758	$ 1,623	$ 3,381
2015	1,844	1,537	3,381
2016	1,932	1,449	3,381
2017	2,023	1,358	3,381
2018	2,122	1,258	3,380
2019—2023	12,289	4,615	16,904
2024—2028	10,966	1,350	12,316
	$ 32,934	$ 13,190	$ 46,124

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, 2013, was $353,351,000.

At June 30, 2013, general obligation bonds authorized but unissued were approximately $1,903,968,000.

5. REVENUE BONDS PAYABLE

Governmental Activities — Revenue Bonds are payable from and collateralized by the Department's revenues generated from certain capital improvement projects. On December 15, 2011, Highways issued $112,270,000 in State of Hawaii Highway Revenue Bonds of 2011, Series A, with interest rates ranging from 1.0% to 5.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually January 1 through 2032.

On December 15, 2011, Highways issued $5,095,000 in State of Hawaii Highway Revenue Bonds of 2011, Series B, with an interest rate of 4.0% to advance refund $5,400,000 of certain outstanding highway revenue bonds previously issued. The bond is payable on January 1, 2023.

On April 2, 2009, the State of Hawaii Department of Hawaiian Homelands (DHHL) issued $42,500,000 in Revenue Bonds, Series 2009, with interest rates ranging from 4% to 6% to finance the construction of certain DHHL capital improvement projects. The bonds are payable annually on April 1 through 2039.

On December 17, 2008, Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4.75% to 6.00% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2029.

On March 15, 2005, Highways issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3.5% to 5.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on 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 ranging from 3.50% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable annually on July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with interest rates ranging from 4.00% to 5.25% 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 State made its last bond payment for this series on July 1, 2013.

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 was used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to advance 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 of 5.5% and mature on July 1, 2017 and July 1, 2018.

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.

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 Bond of 2011, Series B, State of Hawaii Highway Revenue Bonds, Series of 2003; 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.

The following is a summary of Highways and DHHL revenue bonds issued and outstanding at June 30, 2013 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
Highways:					
1998	July 1, 1998	5.500 %	July 1, 2017–July 1, 2018	$ 94,920	$ 27,580
2003	April 15, 2003	4.00%–5.25%	July 1, 2013	44,940	5,360
2005 A	March 15, 2005	3.50%–5.00%	July 1, 2013–2025	60,000	44,200
2005 B	March 15, 2005	3.50%–5.25%	July 1, 2013–2021	123,915	101,430
2008	December 17, 2008	4.75%–6.00%	January 1, 2014–2029	125,175	109,090
2011 A	December 15, 2011	1.00%-5.00%	January 1, 2014–2032	112,270	108,580
2011 B	December 15, 2011	4.00%	January 1, 2023	5,095	5,095
DHHL:					
2009	April 2, 2009	4.00%–6.00%	April 1, 2014–2039	42,500	39,815
					$ 441,150

A summary of the revenue bond premium activities for fiscal year 2013 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance — July 1, 2012	$ 20,770
Current-year additions	-
Current-year amortization	(2,753)
Balance — June 30, 2013	$ 18,017

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

Fiscal Year	Principal	Interest	Total
2014	$ 28,425	$ 21,928	$ 50,353
2015	29,945	20,609	50,554
2016	31,390	19,148	50,538
2017	32,925	17,593	50,518
2018	34,530	15,922	50,452
2019–2023	123,095	58,114	181,209
2024–2028	94,440	32,770	127,210
2029–2033	51,590	10,831	62,421
2034–2038	11,970	3,087	15,057
2039	2,840	170	3,010
	$ 441,150	$ 200,172	$ 641,322

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% of principal.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2013 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2010A, refunding	2.00%–5.25%	2039	$ 478,980	$ 478,395
2010B, refunding	3.00%–5.00%	2020	166,000	150,750
2011, refunding	2.00%-5.00%	2024	300,885	288,885
			$ 945,865	918,030
Add unamortized premium				23,672
Less:				
Deferred loss on refunding				(6,207)
Current portion				(40,305)
Noncurrent portion				$ 895,190

Airports Special Facility Revenue Bonds — Airports entered into three special facility lease agreements with Continental Airlines, Inc. ("Continental") in November 1997 and July 2000, and 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. These bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $30,100 at June 30, 2013.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2013.

$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), 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). 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.

Special facility revenue bonds payable at June 30, 2013, consisted of the following (amounts expressed in thousands):

	Continental		Total
Current portion	$ 970	$ -	$ 970
Noncurrent portion	7,405	21,725	29,130
	$ 8,375	$ 21,725	$ 30,100

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 at 100% of face value.

The following is a summary of the Harbors revenue bonds as of June 30, 2013 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current: Principal Due July 1, 2013	Current: Due January 1, 2014	Current: Total	Noncurrent
2000	July 1, 2029	5.75%	$ 79,405	$ -	$ -	$ -	$ 14,670
2002	July 1, 2019	3.00%–5.50%	24,420	610	-	610	8,795
2004	January 1, 2024	2.50%–6.00%	52,030	-	1,430	1,430	19,280
2006	January 1, 2031	4.00%–5.25%	96,570	-	2,780	2,780	77,640
2007	July 1, 2027	4.25%–5.50%	51,645	4,475	-	4,475	37,920
2010	July 1, 2040	3.00%–5.75%	201,390	3,360	-	3,360	192,935
			$ 505,460	8,445	4,210	12,655	351,240
Add: unamortized premium				-	-	-	1,022
Less:							
Unamortized discount				-	-	-	(14)
Unamortized deferred loss on refunding				-	-	-	(4,254)
				$ 8,445	$ 4,210	$ 12,655	$ 347,994

On August 2, 2013, the Harbors Division issued 23,614,000 Series A of 2013 revenue refunding bonds through a private placement transaction with Capital One Public Funding LLC. These bonds refunded the Series A of 2000 and Series B of 2002 revenue bonds. This bond refunding provided net present value savings of approximately $3,940,000 million as measured from the closing date at a fixed coupon rate of 3.25%.

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
2014	$ 47,835	$ 63,716	$ 111,551
2015	50,045	61,494	111,539
2016	52,360	59,200	111,560
2017	54,780	56,765	111,545
2018	57,450	54,125	111,575
2019–2023	327,665	225,486	553,151
2024–2028	231,595	149,957	381,552
2029–2033	179,255	96,329	275,584
2034–2038	202,150	49,189	251,339
2039–2041	68,585	4,591	73,176
	$ 1,271,720	$ 820,852	$ 2,092,572

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12- and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not present principal payments due on July 1, 2013 and January 1, 2014 of $52,960,000 and interest payments due on July 1, 2013 of $31,843,000.

Revenue Bonds Authorized, but Unissued — At June 30, 2013, revenue bonds authorized, but unissued were approximately $4,933,099,000.

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, 2013, amounted to approximately $1,328,058,000. At June 30, 2013, special purpose revenue bonds of $1,236,750,000 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, 2013.

6. 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, 2012	Additions	Deductions	Balance — June 30, 2013	Due Within One Year
General obligation bonds payable — net	$ 5,475,348	$ 866,990	$ (807,417)	$ 5,534,921	$ 430,556
Accrued vacation payable	212,783	91,495	(83,505)	220,773	63,290
Revenue bonds payable	468,180	-	(27,030)	441,150	28,425
Reserve for losses and loss adjustment costs	169,900	25,111	(39,873)	155,138	39,493
Other postemployment benefits liability	2,530,970	736,968	(201,486)	3,066,452	-
Capital lease obligations	95,340	-	(5,461)	89,879	6,092
Total	$ 8,952,521	$ 1,720,564	$ (1,164,772)	$ 9,508,313	$ 567,856

	Business-Type Activities				
	Balance — July 1, 2012	Additions	Deductions	Balance — June 30, 2013	Due Within One Year
General obligation bonds payable — net	$ 34,611	$ -	$ (1,677)	$ 32,934	$ 1,758
Accrued vacation and retirement benefits payable	12,316	5,588	(5,425)	12,479	3,753
Revenue bonds payable	1,370,314	1,350	(45,552)	1,326,112	53,798
Reserve for losses and loss adjustment costs	4,903	1,114	(1,202)	4,815	1,003
Other postemployment benefits liability	47,568	23,709	(2,853)	68,424	-
Prepaid airport use charge fund	48,117	126	(7,446)	40,797	2,865
	$ 1,517,829	$ 31,887	$ (64,155)	$ 1,485,561	$ 63,177

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 79%, 20%, and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds, and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2013.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2013 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Special Revenue Funds	$ 20,348	$ -
Capital Projects Fund	89,900	-
Med-Quest Special Revenue Fund	10,500	-
Debt Service Fund	-	63
	120,748	63
Capital Projects Fund:		
General Fund	-	89,900
Special Revenue Funds	-	-
Proprietary Fund	1,597	-
	1,597	89,900
Med-Quest Special Revenue Fund —		
General Fund	-	10,500
Nonmajor Governmental Funds:		
General Fund	63	20,348
Capital Projects Fund	-	-
	63	20,348
Proprietary Fund —		
Harbors	-	1,597
	$ 122,408	$ 122,408

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.

8. 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 between funds occur. For the fiscal year ended June 30, 2013, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 77,451	$ 696,818
Capital Projects Fund — Nonmajor Governmental Funds	129,953	32,049
Med-Quest Special Revenue Fund		
General Fund	3,556	28,396
Nonmajor Governmental Funds	4,800	3,365
	8,356	31,761
Nonmajor Governmental Funds:		
General Fund	694,056	49,849
Capital Projects Fund	32,049	129,953
Medquest Fund	3,365	4,800
Other Nonmajor Governmental Funds	88,687	88,687
	818,157	273,289
	$ 1,033,917	$ 1,033,917

The General Fund transferred approximately $631,224,000 to the Nonmajor Governmental Funds for debt service payments and approximately $62,832,000 to subsidize various Special Revenue Funds programs. Approximately $129,953,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

9. LEASES

Lease Commitments

Governmental Activities — The State leases office facilities and equipment under various operating leases expiring through fiscal year 2038. Future minimum lease commitments for noncancelable operating leases as of June 30, 2013, were as follows (amounts expressed in thousands):

Fiscal Year	
2014	$ 15,692
2015	12,808
2016	10,003
2017	6,873
2018	3,918
2019–2023	7,849
2024-2028	1,889
2029-2033	1,810
2034-2038	1,757
Total future minimum lease payments	$ 62,599

Rent expenditures for operating leases for the fiscal year ended June 30, 2013, amounted to approximately $36,302,000.

On April 14, 2011, an equipment lease purchase agreement between the Department of Public Safety of the State of Hawaii and Capital One Public Funding, LLC was entered into, to fund the acquisition and installation of energy conservation equipment at the Halawa Correctional Facility and Oahu Community Correctional Center. An escrow agent to provide for future vendor payments as requested by the State deposited the proceeds of $25,512,000 in an escrow fund. Payments commenced on May 1, 2012 and continue through November 1, 2030 at an interest rate of 5.021%.

An equipment lease purchase agreement between the Department of Accounting and General Services of the State of Hawaii and Capital One Public Funding, LLC was entered into on September 3, 2009, to fund the acquisition and installation of energy conservation equipment at various State buildings in the downtown Honolulu district. The proceeds of $12,377,000 were deposited in an escrow fund by an escrow agent to provide for future vendor payments as requested by the State. Payments commenced on June 1, 2010 and continue through June 1, 2026 at an interest rate of 5.389%.

The State issued $41,120,000 in Certificates of Participation (“COPS” or “Certificates”) 2009 Series A, on November 5, 2009, to fully refund $47,185,000 of the 1998 Series A Certificates and the 2000 Series A Certificates which proceeds were used to purchase the Kapolei State Office Building and the Capitol District Building. The net proceeds of $43,490,000 (including a premium of $2,876,000 and after payment of $503,000 in underwriting fees) were deposited to the Depository Trust Company in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding COPs. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advance refunding, the State reduced its total debt service payments over the next 10 years by $7,487,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,061,000. Payments commence on May 1, 2010, and continue through May 1, 2020 with interest rates ranging from 2.0%–5.0%. The 2009 Series A Certificates are subject to prepayment prior to their maturity dates in the event of a casualty loss or governmental taking of all or a portion of the premises subject to the Leases, but are not otherwise subject to prepayment prior to maturity.

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	
2014	$10,271
2015	10,563
2016	10,901
2017	11,032
2018	11,434
2019–2023	32,083
2024–2028	26,668
2029–2032	14,770
Total future minimum lease payments	127,722
Less amount representing interest	(37,843)
Present value of net minimum lease payments	89,879
Less current portion	(6,092)
Noncurrent portion	$83,787

Capital assets acquired under these capital lease are as follows (amounts expressed in thousands):

Asset type:	
Buildings and improvements	$ 64,385
Equipment	37,889
Total assets	$ 102,274

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. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-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). Net excess payments for fiscal years 1996 through 2012 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 approximately $4,674,000 for fiscal year 2013.

Airports — System Rates and Charges

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

- Landing fees amounted to approximately $63,800,000 for fiscal year 2013. Airport landing fees are shown net of aviation fuel tax credits of $3,926,000 for fiscal year 2013, on the statement of revenues, expenses, and changes in net position, which resulted in net airport landing fees of $59,874,000 for fiscal year 2013. Airport landing fees 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 interisland landing fees for signatory airlines are set at 41.0% of the Airports landing fees for overseas flights for 2013 and are scheduled to increase 1.0% annually until it reaches 100%.

- Nonexclusive joint-use premise charges for terminal rentals amounted to approximately $54,838,000 for fiscal year 2013. 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 approximately $48,521,000 for fiscal year 2013, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to approximately $29,323,000 for fiscal year 2013.

- Airports system support charges amounted to approximately $1,000 for fiscal year 2013. 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, 2013, was approximately $47,312,000.

In fiscal years 2006 and 2013, Airports converted certain past-due amounts from two lessees and a lessee, respectively, into promissory notes. The notes bear interest at rates ranging from 0.0% to 5.0%, and are due over periods ranging from zero to nine years. The balance of $206,000 at June 30, 2013, is due as follows: $128,000 in 2014, $37,000 in 2015, $32,000 in 2016, and $9,000 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 Kahului retail concession, accounted for approximately 27% of total concession fees revenues for the fiscal year ended June 30, 2013.

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, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended 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, 2011, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $155 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, 2011 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period is calculated the same as during the first four years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009, and terminating on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent (85% of the actual annual fee paid for the preceding year).

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 portions of the Aloha Tower complex to the ATDC. 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 the developer and Harbors entered into a capital improvements, maintenance, operations, and securities agreement (“Operations Agreement”). 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 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 punch list have yet to be completed and are being pursued with the new operator. A settlement has been reached with the new operator to satisfy the punchlist obligations which have a total value of $3.5 million, depending upon when actual payments are made by the operator within a six-year timeframe.

An amendment of the lease executed in fiscal year 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. The balance owed to the Harbors Division by ATDC as of June 30, 2013 was approximately $4,148,000.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest for the Aloha Tower Marketplace to a private operator.

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 September 2058. Those leases generally call for rental increases every 5 to 10 years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2013, amounted to $27,922,000 and have been included in rental revenues.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2013 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	**Airports**	**Harbors**	**Total**
2014	$ 116,025	$ 9,425	$ 125,450
2015	65,622	8,068	73,690
2016	53,048	7,829	60,877
2017	47,149	6,407	53,556
2018	14,519	6,119	20,638
2019–2023	38,514	27,906	66,420
2024–2028	12,282	25,886	38,168
2029–2033	3,414	22,159	25,573
2034–2038	1,661	15,129	16,790
2039–2043	697	11,061	11,758
2044–2048	-	6,050	6,050
2049–2053	-	2,617	2,617
2054–2058	-	2,388	2,388
2059	-	87	87
	$ 352,931	$ 151,131	$ 504,062

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, 2013, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 46,898
Less amount representing interest	(20,001)
	26,897
Cash with trustee and other	3,405
	$ 30,302

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2013, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2014	$ 2,778
2015	2,770
2016	2,778
2017	2,776
2018	2,788
2019–2023	9,207
2024-2028	27,224
	$ 50,321

10. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

Hawaii Housing Finance and Development Corporation

Amounts payable from the State to the HHFDC include approximately $505,000 of miscellaneous advances previously made to other departments and approximately $11,991,000 of amounts due from DHHL related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual payments of $2.2 million to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using an imputed interest rate.

Hawaii Health Systems Corporation

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2013, the full amount was not yet repaid to the State. HHSC also received $4,500,000 in advances from the State. $2,000,000 of the $4,500,000 in advances are to be repaid to the State in fiscal year 2014.

Hawaii Tourism Authority

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's transient accommodations tax revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253, SLH of 2002. In accordance with Act 253, the Convention Center Fund was placed within HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's Transient Accommodations Taxes (TAT). Act 253 further states that all funds collected by the

Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to HTA by the CCA. The terms of the payment plan require HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6.0% through January 1, 2027. HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2013, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $234,260,000 and $135,746,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2014	$ 13,135	$ 13,294	$ 26,429
2015	13,920	12,506	26,426
2016	14,755	11,671	26,426
2017	15,645	10,786	26,431
2018	16,580	9,847	26,427
2019–2023	99,080	33,063	132,143
2024–2028	61,145	44,579	105,724
	$ 234,260	$ 135,746	$370,006

Hawaii Hurricane Relief Fund

On June 25, 2002, Act 179, SLH of 2002, was signed into law by the Governor. The law provides that all interest earned from the principal in the Hurricane Relief Fund be transferred and deposited into the State General Fund each year that the Hurricane Relief Fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2013, interest earned and transferred into the State General Fund amounted to $319,000.

On May 26, 2011, Act 62, SLH of 2011, was signed into law by the Governor. This law appropriated $42 million from the HHRF into the General Fund to help balance the State's fiscal year 2011 budget. The law authorizes the Governor to appropriate additional monies from the Fund, as necessary, to balance the fiscal year 2011 State Budget. In that regard, the Fund pledged to transfer an additional $69 million to the General Fund as of June 30, 2011 and made the transfer in July 2011.

The transfers to the General Fund had reduced the balance of the Fund to levels below what would be adequate to buy reinsurance in the event of a hurricane. However, Act 62 established a mechanism to replenish the Fund from fiscal years 2014 and 2015 general excise tax revenues and authorizes the Fund to issue $75 million in revenue bonds through June 30, 2015. The Fund has not issued any revenue bonds as of June 30, 2013.

On July 3, 2013, Act 266, SLH of 2013, was signed into law by the Governor. This law appropriated $55.5 million from general excise tax revenues for fiscal years 2014 and 2015 to be deposited into the Fund. The fiscal year 2014 transfer was made in September 2013. Act 266 proposed to further accelerate recapitalization of fiscal reserves, by transferring an additional $50 million to the fund in fiscal year 2014.

11. RETIREMENT BENEFITS

Employees' Retirement System

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 2.0% 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. Most covered employees of the hybrid plan are required to contribute 6.0% 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, 2013, 2012, and 2011, were approximately \$418,415,000, \$396,380,000, and \$388,242,000, respectively. The State contributed 84.7%, 108.6%, and 105.3% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2013, was approximately \$2,694,852,000.

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less 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 base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less 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 base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding Policy and Annual OPEB Cost

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

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 State 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*, as amended.

Effective July 1, 2007, the State implemented GASB Statement No. 45 ("GASB 45"), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State is required by GASB 45 to obtain an actuarial valuation every other year. An actuarial valuation was performed as of July 1, 2011.

The State's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the EUTF and UH for each of the plans for the fiscal year ended June 30, 2013 (amounts expressed in thousands):

	EUTF	UH
Annual required contribution	$ 853,794	$ 141,099
Interest on net OPEB obligation	111,586	16,538
Adjustment to annual required contribution	(97,813)	(15,035)
Annual OPEB cost	867,567	142,602
Contributions made	(236,200)	(41,700)
Increase in net OPEB obligation	631,367	100,902
Net OPEB obligation — beginning of year	2,789,487	413,462
Net OPEB obligation — end of year	$ 3,420,854	$ 514,364
Actuarial accrued liability (AAL) July 1, 2011	$ 11,706,157	$ 1,965,769
Funded OPEB plan assets	-	-
Unfunded actuarial accrued liability (UAAL) July 1, 2011	$ 11,706,157	$ 1,965,769
Funded ratio	- %	- %
Covered payroll	$ 2,176,996	$ 517,856
UAAL as percentage of covered payroll	537.7 %	379.6 %

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 and the two preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation
EUTF	June 30, 2013	$ 867,567	27.2 %	$ 3,420,854
	June 30, 2012	856,589	27.0 %	2,789,487
	June 30, 2011	906,117	25.3 %	2,155,055
UH	June 30, 2013	$ 142,602	29.2 %	$ 514,364
	June 30, 2012	136,078	30.0 %	413,462
	June 30, 2011	150,637	25.7 %	318,143

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

On July 3, 2013, the Governor signed into law Act 268, SLH of 2013. Act 268 requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund post-employment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014. Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties. The State has determined that this law did not affect the OPEB liability as of June 30, 2013.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	EUTF and UH
Actuarial valuation date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years (Open)
Asset valuation method	Fair value of assets, plus accrued contributions
Actuarial assumptions:	
Investment rate of return	4.0 %
Projected salary increases	3.5 %
Healthcare inflation rates:	
Medical & Rx Pre-65 (HMSA)	7.5% initial, 5.0% ultimate reached in 2020
Medical & Rx Pre-65 (HMSA & Kaiser-HSTA)	8.0% initial, 5.0% ultimate reached in 2020
Medical & Rx Post-65 (HMSA)	8.0% initial, 5.0% ultimate reached in 2020
Medical & Rx Post-65 (Kaiser)	12.0% initial, 5.0% ultimate reached in 2020
Dental	4.0% initial and ultimate
Vision	3.0% initial and ultimate
Medicare Part B	5.0% initial and ultimate

Effective July 1, 2013, the active contracts for medical, prescription drug, dental, vision, supplemental medical drug and life insurance were extended through June 30, 2014.

The 2013 legislature passed Act 226, SLH of 2013 that among other things, prohibited mandatory mail order. The EUTF voluntarily implemented Act 226 on October 1, 2013 for active employees and will implement Act 226 on January 1, 2014 for retirees.

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 4). At June 30, 2013, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 12,511
Agriculture	6,632
Natural Resources	2,687
All Other	196
	$ 22,026

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, 2013, accumulated sick leave was approximately $1,052,971,000.

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 $233,500,000 for aquaculture/agriculture 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, 2013.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2013, the Enterprise Funds had commitments of approximately $362,847,000 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, 2013, 2012, and 2011, approximated $17,790,000, $3,668,000, and $4,130,000, 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 $48,579,000 during the fiscal year ended June 30, 2013. As of June 30, 2013, the State expects to receive $27,600,000 for the first six months of fiscal 2014.

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 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. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, 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 as provided by law, 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 the funds derived by the State from the Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for the claims pending in the *OHA v. HHA* case discussed below, the Legislature, the State and federal courts, and the governor have acted to address the concerns raised. However, there can be no assurance that in the future there will not be new claims asserted against the State made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or that OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

In OHA v. HHA, OHA filed suit on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) 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 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 *OHA, et al. v. State of Hawaii, et al.,* Civil No. 94-0205-01 (1st Cir.). The September 12, 2001 decision of the Hawaii Supreme Court (*OHA v. State of Hawaii,* 96 Haw. 399 (2001)) includes elements, with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA,* and the case remains pending.

The Housing Finance and Develoment Corporation and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. This corporation subsequently was bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against OHA's claim in *OHA v. HHA.*

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; 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.

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. 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.

On December 29, 1999, 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 Chapters 673 and 674, 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 (1st Cir.) ("*Kalima I*") - Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. The plaintiffs in these other actions 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. Following the dismissal without prejudice of the actions of four of the five claimants, only one lawsuit, *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (3rd Cir.) (*"Aguiar"),* is pending and stayed.

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 Chapter 673, for the Panel's and 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 (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*. *Kalima I, Kalima II* and *Aguiar* are collectively referred to under this caption as the "Individual Claims Cases."

The plaintiffs in *Kalima I* filed a motion for partial summary judgment and asked the circuit court to declare that they were entitled to sue for breach of trust and recover damages under HRS Chapter 674. The State moved to dismiss the complaint and all claims in *Kalima I* for lack of subject matter jurisdiction. The circuit court granted the plaintiffs' motion and denied the State's motion. The State was permitted to take an interlocutory appeal. In an opinion issued June 30, 2006, the Hawaii Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, but did not have a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs in *Kalima I* have since filed first and second amended complaints 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) allegedly 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) allegedly defectively constructed homes or infrastructure, (6) allegedly 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 list subclass' claims separately and first, and after a six week bifurcated trial to determine liability only, the circuit judge for *Kalima II* ruled on November 3, 2009 that the State committed three breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches.

By orders entered on November 24, 2009 and June 6, 2011, respectively, the Waiting List Liability Subclass certified for purposes of determining liability was recertified for the purpose of establishing causation and the fact of damages (over the State's objection), and again as the Waiting List Damages Model Subclass for the purpose of devising a model for use on a class-wide basis to determine the amount of damages subclass members may be awarded. Notice to the putative members of the Waiting List Damages Model Subclass of the right to opt-out of the Waiting List Damages Model Subclass was mailed to all members of the Waiting List Liability Subclass on May 22, 2012, and published on the DHHL website, and in the DHHL and OHA newsletters.

Multiple motions to establish a damages model were filed and heard between March 2011 and August 31, 2012. Orders were entered on January 24, 2012, and February 4 and 14, 2013. A three day trial to establish fair market land rents to use in lieu of testimony or documents to establish each claimant's out of pocket loss, if any, for each year the claimant waited to be awarded or offered a residential homestead on Oahu was completed on October 3, 2013. However, to date, no proceeding or procedures have been scheduled or devised to apply the damages model to determine whether and how much each claimant would be awarded in damages. On January 13 and 14, 2014, the parties were scheduled to participate in a private mediation on the matters in controversy in the case, pursuant to the circuit court's order approving the parties' Stipulation in Participate in Private Mediation, etc., filed on September 13, 2013.

Nelson - In the First Amended Complaint filed on October 19, 2007 in *Nelson et al., v. Hawaiian Homes Commission, et al.*, Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), the plaintiffs allege all defendants 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, the *Nelson* plaintiffs asked 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. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Hawaii State Legislature, the State of Hawaii, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in Article XII, Section 1 of the Hawaii Constitution.

A final judgment in favor of the State was filed on September 23, 2009, and the plaintiffs appealed. On January 12, 2011, the Intermediate Court of Appeals concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, and vacated the judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer supported the political question doctrine defense.

On May 9, 2012, the Hawaii Supreme Court concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots, (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Hawaii Supreme Court thus held that plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. The Hawaii Supreme Court did, however, uphold the Intermediate Court of Appeals as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for "administrative and operating expenses." Determination of this amount awaits further litigation in the circuit court on remand. Pursuant to the Judgment on Appeal issued on July 25, 2013, the case has been remanded to the circuit court for further proceedings.

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 plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, 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 ERS actuarial investment earnings in excess of 10% 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.

The 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 the 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.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the EUTF, and the EUTF Board of Trustees (collectively, the "Defendants"). See *Marion Everson, et al. v. State of Hawaii, et al.*, Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii. In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents.

Following a related proceeding that commenced in 2007, the Hawaii Supreme Court held that health benefits for retired state and county employees constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but that HRS Chapter 87A (particularly HRS Section 87A-23) did not require that retiree health benefits reasonably approximate those provided to active employees. See *Everson v. State*, 122 Hawai'i 401, P.3d 282 (2010). The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al.*) claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by failing to provide them and other State and county retirees with: (a) health care benefits that are equivalent to those provided to State and county active employees; and/or (b) health care benefits that are equivalent to benefits provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age. The Second Amended Complaint also claims that State and county employees who retired prior to July 1, 2001, are contractually entitled to have their employers pay for all their health plan premiums despite the contribution caps in Sections 87A-33 through 87A-36, HRS. The Second Amended Complaint also claims that the EUTF was negligent in failing to properly interpret constitutional, statutory, and contractual requirements when it created retiree health plans. Plaintiffs seek declaratory and injunctive relief and monetary damages. The monetary damages sought are: (1) the amount that retirees and their dependents have had to personally pay for health care because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; (2) damages for health care that retirees and their dependents have foregone because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; and (3) damages for pain and suffering. On August 29, 2013, the First Circuit Court entered an Order Granting Plaintiffs' Motion for

Class Action Certification. The class certified is all employees (and their dependent-beneficiaries) who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, before July 1, 2003, and who have accrued or will accrue a right to post-retirement health benefits as a retiree or dependent-beneficiary of such a retiree. This includes: (a) those who have not yet received any post-retirement health benefits from Defendants as a retiree or dependent-beneficiary of such a retiree; and (b) those who have received any post-retirement benefits from Defendants since July 1, 2003 as a retiree or dependent-beneficiary of such a retiree. For purposes of damages only, if any, the class shall also include the estates and heirs of any deceased retiree or deceased dependent-beneficiary of a retiree who is or was a member of the class. On December 10, 2012, Plaintiff filed Plaintiffs' Motion for Partial Summary Judgment seeking judgment in their favor and against Defendants on the liability issues in the lawsuit, i.e., that Plaintiffs be granted their requested declaratory and injunctive relief, and that Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, State Defendants filed State Defendants' Motion for Partial Summary Judgment seeking judgment in their favor and against Plaintiffs on all of Plaintiffs' claims that are based on the allegations that: (1) State Defendants have violated the constitutional, contractual, and statutory rights of Plaintiffs by not providing health care benefits for retirees and their dependents that are equivalent to those provided to active employees and their dependents; (2) State Defendants have violated the constitutional and contractual rights of Plaintiffs by not providing health care benefits to retirees and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and (3) State Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were scheduled to be heard by the First Circuit Court on October 30, 2013. The Court advised the parties that it would issue a decision after further review of the parties' memoranda, declarations, and exhibits. The parties are currently waiting for the Court's decision on the motions.

Department of Education

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers alleging that the DOE has failed to pay substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 – June 30, 2005.

An adverse ruling against the State was made by the First Circuit Court on a motion for summary judgment regarding liability issues. The adverse ruling was the subject of an interlocutory appeal to the Intermediate Court of Appeals, which issued its ruling on October 30, 2009, affirming the adverse ruling. The Supreme Court denied certiorari on August 16, 2010 and the case was remanded to the Circuit Court for a determination of damages.

In November 2013, a partial settlement agreement was reached whereby the State agreed to pay $14,031,000 to resolve the claims for backpay (mandatory fringe benefits). The claims for pre-judgment interest and attorneys' fees remain to be determined. The partial settlement agreement amount was appropriated by the 2013 Legislature.

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 3.0% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $225,000,000, except for flood and earthquake, which individually is a $225,000,000 aggregate loss and terrorism, which is $50,000,000 per occurrence and a $25,000 deductible.

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 DAGS risk management office. 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 $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $15,000,000 and for crime loss, $10,000,000 with no aggregate limit.

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 $35,000,000 per occurrence and $39,000,000 in 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, 2013, 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 position, 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, 2013 (amounts expressed in thousands):

	2013	2012
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 169,900	$ 153,520
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	26,270	43,517
Decrease in provision for insured events of prior fiscal years	(1,159)	(487)
Total incurred losses and loss adjustment costs	25,111	43,030
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(19,954)	(7,770)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(19,919)	(18,880)
Total payments	(39,873)	(26,650)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 155,138	$ 169,900

14. BUSINESS INTERRUPTION INSURANCE RECOVERY

During the year ended June 30, 2013, the Airports Division received a business interruption insurance recovery relating to the events of September 11, 2001, amounting to $19,000,000. This amount is reflected on a separate line item between the caption total operating expenses and operating income in the accompanying Proprietary Fund statements of revenues, expenses, and changes in fund net position.

15. SUBSEQUENT EVENTS

General Obligation Bonds

On November 21, 2013, the State issued $171,060,000 million in Tax-Exempt Refunding Bonds of 2013 Series EI, EJ, EK and EL; $29,795,000 million in Taxable General Obligation Qualified School Construction Bonds of 2013 Series EN; and $660,000,000 million in Tax-Exempt General Obligation Bonds of 2013 Series EM and EH. Series EH, EM, and EN were 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, senior housing facilities, public libraries and parks and for other public purposes. The Refunding Bond proceeds were used to advance refund outstanding General Obligation Bonds previously issued.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

General Fund — Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis)

Med-Quest Special Revenue Fund — Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis)

Notes to Required Supplementary Information — Budgetary Control

Schedules of Funding Progress — EUTF

Schedules of Funding Progress — HSTA VEBA

Schedules of Funding Progress — UH

STATE OF HAWAII

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,878,453	$ 2,962,446	$ 2,944,487	$ (17,959)
Net income tax:				
Corporations	56,362	56,647	100,988	44,341
Individuals	1,540,136	1,612,070	1,735,520	123,450
Inheritance and estate tax	19,600	14,421	14,886	465
Liquor permits and tax	49,558	50,219	48,962	(1,257)
Public service companies tax	126,244	155,740	163,930	8,190
Tobacco tax	124,591	103,034	94,180	(8,854)
Tax on premiums of insurance companies	115,000	122,000	131,906	9,906
Franchise tax (banks and other financial institutions)	29,788	27,848	20,673	(7,175)
Transient accommodations tax	131,399	167,963	171,556	3,593
Other taxes, primarily conveyances tax	37,089	34,449	41,206	6,757
Total taxes	5,108,220	5,306,837	5,468,294	161,457
Non-taxes:				
Interest and investment income	10,262	10,403	5,873	(4,530)
Charges for current services	251,431	252,568	252,967	399
Intergovernmental	4,577	12,918	13,708	790
Rentals	634	429	276	(153)
Fines, forfeitures, and penalties	24,293	23,556	22,343	(1,213)
Licenses and fees	5,820	6,012	6,465	453
Revenues from private sources	27,647	3,304	2,423	(881)
Debt service requirements	35,546	35,546	35,753	207
Other	177,709	270,354	381,189	110,835
Total non-taxes	537,919	615,090	720,997	105,907
Total revenues	5,646,139	5,921,927	6,189,291	267,364
EXPENDITURES:				
General government	2,063,763	2,109,101	1,984,204	124,897
Public safety	238,681	244,315	241,689	2,626
Conservation of natural resources	26,238	26,995	22,358	4,637
Health	396,261	411,595	398,196	13,399
Hospitals	82,140	88,181	84,565	3,616
Welfare	1,050,638	1,052,251	1,038,220	14,031
Lower education	1,414,215	1,416,683	1,374,663	42,020
Higher education	377,460	378,385	375,132	3,253
Other education	5,509	5,509	5,117	392
Culture and recreation	37,490	37,654	35,519	2,135
Economic development and assistance	19,200	25,883	29,031	(3,148)
Housing	15,461	15,748	14,793	955
Other	874	30,097	14,613	15,484
Total expenditures	5,727,930	5,842,397	5,618,100	224,297
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(81,791)	79,530	571,191	491,661
OTHER FINANCING SOURCES — Transfers in	17,004	41,825	45,149	3,324
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ (64,787)	$ 121,355	$ 616,340	$ 494,985

STATE OF HAWAII

MED-QUEST SPECIAL REVENUE FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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	-	-	-	-
Charges for current services	-	-	-	-
Intergovernmental	965,180	1,018,190	868,751	(149,439)
Rentals	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	40,501	40,501
Other	32,000	50,005	77,459	27,454
Total non-taxes	997,180	1,068,195	986,711	(81,484)
Total revenues	997,180	1,068,195	986,711	(81,484)
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	995,234	995,234	993,573	1,661
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	995,234	995,234	993,573	1,661
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ 1,946	$ 72,961	$ (6,862)	$ (79,823)

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 Schedule 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 2013 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 2011–2013 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 Schedule 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 DAGS. During the fiscal year ended June 30, 2013, 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 cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

STATE OF HAWAII

GENERAL FUND AND MED-QUEST SPECIAL REVENUE FUND
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2013
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2013, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and other sources over expenditures — actual (budgetary basis)	$ 616,340	$ (6,862)
Transfers	-	(3,147)
Excess of revenues and over expenditures — actual (budgetary basis)	616,340	(10,009)
Reserve for encumbrances at fiscal year end *	321,949	69,682
Expenditures for liquidation of prior fiscal year encumbrances	(318,281)	(51,225)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(1,273)	-
Tax refunds payable	(31,387)	-
Accrued liabilities	(36,481)	(116,197)
Accrued revenues	66,968	105,196
Net change in fund balance — GAAP basis	$ 617,835	$ (2,553)

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

STATE OF HAWAII

SCHEDULES OF FUNDING PROGRESS
(Amounts in millions)

PRIMARY GOVERNMENT:

EUTF

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 7,192	$ 7,192	- %	$ 1,782	403.6 %
July 1, 2009	-	11,523	11,523	-	1,432	804.7
July 1, 2011	-	11,706	11,706	-	2,093	559.3

HSTA-VEBA

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 1,579	$ 1,579	- %	$ 680	232.2 %
July 1, 2009	-	2,484	2,484	-	683	363.7

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Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$ -	$ 1,136	$ 1,136	- %	$ 477	238.2 %
July 1, 2009	-	1,850	1,850	-	495	373.7
July 1, 2011	-	1,861	1,861	-	504	369.2

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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, 2013
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 9,118	$ 6,521	$ 8,856	$ 2,483	$ 40,932	$ 1,280	$ 1,950
RECEIVABLES:							
Notes and loans — net	-	17,828	-	-	-	1,973	-
Other	-	-	-	16,700	-	-	-
DUE FROM OTHER FUNDS	-	-	-	-	-	-	-
INVESTMENTS	161,341	102,168	138,742	38,905	164,474	20,046	30,555
TOTAL	$ 170,459	$ 126,517	$ 147,598	$ 58,088	$ 205,406	$ 23,299	$ 32,505
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 31,945	$ 7,322	$ 11,592	$ 9,171	$ 13,281	$ 1,784	$ 4,674
Other accrued liabilities	4,679	2,369	6,945	391	12,032	705	2,165
Due to federal government	-	-	-	37,145	-	-	-
Due to other funds	-	2,152	-	16,700	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	36,624	11,843	18,537	63,407	25,313	2,489	6,839
FUND BALANCES:							
Restricted	-	-	-	21,791	-	-	-
Committed	-	88,474	148,684	848	-	16,637	17,300
Assigned	133,835	26,200	-	-	180,093	4,173	8,366
Unassigned	-	-	(19,623)	(27,958)	-	-	-
Total fund balances	133,835	114,674	129,061	(5,319)	180,093	20,810	25,666
TOTAL	$ 170,459	$ 126,517	$ 147,598	$ 58,088	$ 205,406	$ 23,299	$ 32,505

See accompanying notes to the basic financial statements

Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 3,141	$ 16,785	$ 15,407	$ 2,798	$ 109,271	$ 235	$ 109,506
-	54,502	-	-	74,303	-	74,303
-	-	-	-	16,700	-	16,700
-	-	-	-	-	63	63
49,206	215,479	94,927	43,856	1,059,699	-	1,059,699
$ 52,347	$ 286,766	$ 110,334	$ 46,654	$ 1,259,973	$ 298	$ 1,260,271
$ 641	$ 9,298	$ 2,774	$ 1,177	$ 93,659	$ -	$ 93,659
1,504	454	2,610	2,635	36,489	-	36,489
-	-	-	-	37,145	-	37,145
-	-	-	1,496	20,348	-	20,348
-	-	-	-	-	235	235
2,145	9,752	5,384	5,308	187,641	235	187,876
-	-	-	-	21,791	63	21,854
39,428	120,585	54,284	-	486,240	-	486,240
10,774	156,429	50,666	41,346	611,882	-	611,882
-	-	-	-	(47,581)	-	(47,581)
50,202	277,014	104,950	41,346	1,072,332	63	1,072,395
$ 52,347	$ 286,766	$ 110,334	$ 46,654	$ 1,259,973	$ 298	$ 1,260,271

(concluded)

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	23,029	1,295	-	-	3,884	300
Transient accommodations tax	-	1,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	15,777	-	-	-	-
Liquid fuel tax	85,775	250	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	116,194	-	5,411	-	-	-	-
Rental motor/tour vehicle surcharge tax	47,593	-	-	-	-	-	-
Total taxes	249,562	24,279	22,483	-	-	3,884	300
Interest and investment income	2,043	1,495	1,124	10	267	244	244
Charges for current services	3,163	28,802	53,847	646	41,911	5,411	15,958
Intergovernmental	159,257	22,903	125,209	675,402	318,482	13,930	47,012
Rentals	613	9,108	-	-	359	1,361	-
Fines, forfeitures, and penalties	2,012	59	2,047	-	-	-	1,231
Licenses and fees	2,035	549	1,069	169	695	-	-
Revenues from private sources	-	49	48,263	34	8,609	-	-
Other	9,451	7,707	779	443	19,019	231	2,831
Total revenues	428,136	94,951	254,821	676,704	389,342	25,061	67,576
EXPENDITURES:							
Current:							
General government	-	4,352	191	-	-	-	-
Public safety	-	5,388	-	-	-	-	1,913
Conservation of natural resources	-	59,609	-	-	-	-	-
Health	-	-	207,255	-	-	-	-
Welfare	-	-	-	652,811	-	-	-
Lower education	-	-	-	-	435,248	-	-
Other education	-	-	-	14,349	-	-	-
Culture and recreation	-	11,916	-	-	2,742	-	-
Urban redevelopment and housing	-	-	-	7,338	-	-	-
Economic development and assistance	-	2,740	-	-	-	26,339	62,974
Other	-	3,061	-	-	-	-	-
Highways	245,863	71	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	245,863	87,137	207,446	674,498	437,990	26,339	64,887
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	182,273	7,814	47,375	2,206	(48,648)	(1,278)	2,689
OTHER FINANCING SOURCES (USES):							
Issuance of GO and refunding GO bonds - par	-	-	-	-	-	-	-
Issuance of GO and refunding GO bonds - premium	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	-
Transfers in	14,963	2,086	59	3,743	60,212	2,020	57
Transfers out	(202,162)	(1,243)	(26,348)	(16,259)	-	-	(328)
Total other financing (uses) sources	(187,199)	843	(26,289)	(12,516)	60,212	2,020	(271)
NET CHANGE IN FUND BALANCES	(4,926)	8,657	21,086	(10,310)	11,564	742	2,418
FUND BALANCES — Beginning of year	138,761	106,017	107,975	4,991	168,529	20,068	23,248
FUND BALANCES — End of year	$ 133,835	$ 114,674	$ 129,061	$ (5,319)	$ 180,093	$ 20,810	$ 25,666

Special Revenue Funds						
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 2,000	$ -	$ -	$ -	2,000	$ -	$ 2,000
-	-	-	-	28,508	-	28,508
-	-	-	-	1,000	-	1,000
-	-	2,148	-	17,925	-	17,925
-	-	-	1,620	87,645	-	87,645
1,679	-	-	-	1,679	-	1,679
-	-	-	-	121,605	-	121,605
-	-	-	-	47,593	-	47,593
3,679	-	2,148	1,620	307,955	-	307,955
411	6,528	533	179	13,078	-	13,078
18,503	4,559	52,339	21,878	247,017	-	247,017
4,605	3,218	19,645	54,462	1,444,125	-	1,444,125
-	12,707	960	3,249	28,357	-	28,357
6,351	57	233	2,469	14,459	-	14,459
15,237	-	20,197	423	40,374	-	40,374
1	3,000	1,757	33	61,746	-	61,746
67	11,611	2,991	4,271	59,401		59,401
48,854	41,680	100,803	88,584	2,216,512	-	2,216,512
-	-	40,426	11,845	56,814	-	56,814
41,182	-	21,984	58,928	129,395	-	129,395
-	-	210	-	59,819	-	59,819
-	-	1	-	207,256	-	207,256
-	-	11,938	549	665,298	-	665,298
-	-	1,306	-	436,554	-	436,554
-	-	-	-	14,349	-	14,349
-	-	10,355	19,457	44,470	-	44,470
-	55,573	-	-	62,911	-	62,911
33	-	47	-	92,133	-	92,133
-	-	5,778	634	9,473	-	9,473
-	2,817	44	-	248,795	-	248,795
-	-	-	-	-	687,649	687,649
41,215	58,390	92,089	91,413	2,027,267	687,649	2,714,916
7,639	(16,710)	8,714	(2,829)	189,245	(687,649)	(498,404)
-	-	-	-	-	396,990	396,990
-	-	-	-	-	106,382	106,382
-	-	-	-	-	(503,372)	(503,372)
2,701	30,000	5,390	9,278	130,509	687,648	818,157
(2,900)	(3,063)	(18,545)	(2,441)	(273,289)	-	(273,289)
(199)	26,937	(13,155)	6,837	(142,780)	687,648	544,868
7,440	10,227	(4,441)	4,008	46,465	(1)	46,464
42,762	266,787	109,391	37,338	1,025,867	64	1,025,931
$ 50,202	$ 277,014	$ 104,950	$ 41,346	$ 1,072,332	$ 63	$ 1,072,395

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, 2013
(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:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	91,371	85,775	(5,596)	230	250	20
Boating	-	-	-	-	-	-
Vehicle registration fee tax	41,683	42,291	608	-	-	-
State vehicle weight tax	66,846	73,902	7,056	-	-	-
Rental/tour vehicle surcharge tax	45,632	47,593	1,961	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	14,775	19,144	4,369
Environmental response tax	-	-	-	3,400	3,884	484
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	245,532	249,561	4,029	19,405	24,278	4,873
Non-taxes:						
Interest and investment income	5,000	134	(4,866)	1,058	850	(208)
Charges for current services	79,506	3,163	(76,343)	24,974	28,730	3,756
Intergovernmental	30,893	63,074	32,181	12,773	22,898	10,125
Rentals	-	613	613	2,876	9,108	6,232
Fines, forfeitures, and penalties	1,725	2,012	287	37	59	22
Licenses and fees	1,935	2,035	100	495	549	54
Revenues from private sources	-	-	-	-	49	49
Other	37	50,672	50,635	3,208	7,093	3,885
Total non-taxes	119,096	121,703	2,607	45,421	69,336	23,915
Total revenues	364,628	371,264	6,636	64,826	93,614	28,788
EXPENDITURES:						
General government	-	-	-	4,523	4,187	336
Public safety	-	-	-	7,864	2,306	5,558
Highways	336,974	273,345	63,629	-	-	-
Conservation of natural resources	-	-	-	101,351	64,140	37,211
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	14,520	11,245	3,275
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	6,789	2,799	3,990
Other	1,725	1,063	662	-	-	-
Total expenditures	338,699	274,408	64,291	135,047	84,677	50,370
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 25,929	$ 96,856	$ 70,927	$ (70,221)	$ 8,937	$ 79,158

Health			Human Services		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
5,144	5,411	267	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
17,587	15,777	(1,810)	-	-	-
-	-	-	-	-	-
1,340	1,295	(45)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
24,071	22,483	(1,588)	-	-	-
345	195	(150)	-	3	3
82,962	80,494	(2,468)	-	646	646
110,235	112,377	2,142	235,154	185,965	(49,189)
-	-	-	-	-	-
1,142	2,047	905	-	-	-
2,192	1,070	(1,122)	406	169	(237)
28,354	48,263	19,909	-	34	34
254	1,088	834	-	774	774
225,484	245,534	20,050	235,560	187,591	(47,969)
249,555	268,017	18,462	235,560	187,591	(47,969)
188	185	3	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
349,712	283,387	66,325	-	-	-
-	-	-	269,872	166,487	103,385
-	-	-	-	-	-
-	-	-	22,953	14,053	8,900
-	-	-	-	-	-
-	-	-	4,201	4,077	124
-	-	-	36	-	36
-	-	-	-	-	-
349,900	283,572	66,328	297,062	184,617	112,445
$ (100,345)	$ (15,555)	$ 84,790	$ (61,502)	$ 2,974	$ 64,476

(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, 2013
(Amounts in thousands)

	Education			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
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	-	-	-	3,526	3,884	358
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	3,526	3,884	358
Non-taxes:						
Interest and investment income	217	66	(151)	122	52	(70)
Charges for current services	39,145	39,557	412	9,271	5,411	(3,860)
Intergovernmental	224,383	293,181	68,798	23,047	13,930	(9,117)
Rentals	40	359	319	2,610	1,361	(1,249)
Fines, forfeitures, and penalties	-	-	-	-	-	-
Licenses and fees	1,718	695	(1,023)	-	-	-
Revenues from private sources	370	187	(183)	250	-	(250)
Other	51,860	16,042	(35,818)	4	2,251	2,247
Total non-taxes	317,733	350,087	32,354	35,304	23,005	(12,299)
Total revenues	317,733	350,087	32,354	38,830	26,889	(11,941)
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	570,592	334,885	235,707	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	5,044	3,429	1,615	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	81,402	27,198	54,204
Other	-	-	-	-	-	-
Total expenditures	575,636	338,314	237,322	82,502	27,198	55,304
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (257,903)	$ 11,773	$ 269,676	$ (43,672)	$ (309)	$ 43,363

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	300	300	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	
-	-	-	1,500	1,679	179
-	300	300	3,500	3,679	179
160	71	(89)	538	124	(414)
18,500	15,958	(2,542)	18,856	18,503	(353)
40,392	47,013	6,621	10,000	4,606	(5,394)
-	-	-	-	-	-
200	1,231	1,031	-	6,351	6,351
-	-	-	15,766	15,237	(529)
-	-	-	-	-	-
6	3,474	3,468	3,004	2,769	(235)
59,258	67,747	8,489	48,164	47,590	(574)
59,258	68,047	8,789	51,664	51,269	(395)
-	-	-	-	-	-
4,472	1,913	2,559	73,366	44,143	29,223
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
130,298	63,195	67,103	59	33	26
-	-	-	-	-	-
134,770	65,108	69,662	73,425	44,176	29,249
$ (75,512)	$ 2,939	$ 78,451	$ (21,761)	$ 7,093	$ 28,854

(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, 2013
(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:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
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	-	-	-	1,752	2,148	396
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,752	2,148	396
Non-taxes:						
Interest and investment income	710	310	(400)	808	89	(719)
Charges for current services	1	16	15	46,399	54,904	8,505
Intergovernmental	8,000	3,218	(4,782)	20,878	19,645	(1,233)
Rentals	9,537	12,350	2,813	6,235	6,460	225
Fines, forfeitures, and penalties	-	57	57	261	233	(28)
Licenses and fees	-	-	-	17,296	20,197	2,901
Revenues from private sources	-	3,000	3,000	1,940	1,757	(183)
Other	4,660	6,551	1,891	5,864	4,720	(1,144)
Total non-taxes	22,908	25,502	2,594	99,681	108,005	8,324
Total revenues	22,908	25,502	2,594	101,433	110,153	8,720
EXPENDITURES:						
General government	-	-	-	86,710	52,090	34,620
Public safety	-	-	-	25,532	18,990	6,542
Highways	-	-	-	568	555	13
Conservation of natural resources	-	-	-	336	19	317
Health	-	-	-	-	-	-
Welfare	-	-	-	15,463	11,238	4,225
Lower education	-	-	-	1,500	1,307	193
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	14,473	11,055	3,418
Urban redevelopment and housing	43,532	21,787	21,745	-	-	-
Economic development and assistance	-	-	-	45	45	-
Other	-	-	-	22,507	5,785	16,722
Total expenditures	43,532	21,787	21,745	167,134	101,084	66,050
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (20,624)	$ 3,715	$ 24,339	$ (65,701)	$ 9,069	$ 74,770

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)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	91,601	86,025	(5,576)
1,600	1,621	21	1,600	1,621	21
-	-	-	46,827	47,702	875
-	-	-	66,846	73,902	7,056
-	-	-	45,632	47,593	1,961
-	-	-	-	300	300
-	-	-	19,339	17,925	(1,414)
-	-	-	14,775	19,144	4,369
-	-	-	8,266	9,063	797
-	-	-	1,000	1,000	-
-	-	-	2,000	2,000	-
-	-	-	1,500	1,679	179
1,600	1,621	21	299,386	307,954	8,568
345	64	(281)	9,303	1,958	(7,345)
18,718	21,878	3,160	338,332	269,260	(69,072)
31,376	54,461	23,085	747,131	820,368	73,237
2,000	3,249	1,249	23,298	33,500	10,202
2,628	2,470	(158)	5,993	14,460	8,467
512	423	(89)	40,320	40,375	55
30	34	4	30,944	53,324	22,380
7,833	12,809	4,976	76,730	108,243	31,513
63,442	95,388	31,946	1,272,051	1,341,488	69,437
65,042	97,009	31,967	1,571,437	1,649,442	78,005
18,486	14,661	3,825	109,907	71,123	38,784
116,130	66,793	49,337	228,464	134,145	94,319
-	-	-	337,542	273,900	63,642
-	-	-	101,687	64,159	37,528
-	-	-	349,712	283,387	66,325
550	549	1	285,885	178,274	107,611
-	-	-	572,092	336,192	235,900
-	-	-	22,953	14,053	8,900
19,135	13,841	5,294	53,172	39,570	13,602
-	-	-	47,733	25,864	21,869
-	-	-	218,629	93,270	125,359
-	-	-	24,232	6,848	17,384
154,301	95,844	58,457	2,352,008	1,520,785	831,223
$ (89,259)	$ 1,165	$ 90,424	$ (780,571)	$ 128,657	$ 909,228

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2013
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$	128,657
RESERVE FOR ENCUMBRANCES AT YEAR-END*		287,081
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES		(372,032)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS		(46,440)
EXPENDITURES FOR DEBT SERVICE PAID OUT OF OTHER GOVERNMENTAL FUNDS		(687,649)
TRANSFERS		170,418
ACCRUED LIABILITIES		(498,835)
ACCRUED REVENUES		520,396
DEFICIENCY OF REVENUES UNDER EXPENDITURES — GAAP basis	$	(498,404)

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

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF FUND NET POSITION
JUNE 30, 2013
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 12,669	$ 148,844	$ 64,924	$ 226,437
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $0)	44	599	104	747
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	26,199	4,364	30,563
Federal government		102	492	594
Premiums	67,896	-	-	67,896
Other	2,849	281	629	3,759
Prepaid expenses and other assets	5,355	-	-	5,355
Total current assets	88,813	176,025	70,513	335,351
CAPITAL ASSETS - Equipment	9,956	78	1,237	11,271
	9,956	78	1,237	11,271
Less accumulated depreciation	(5,149)	(51)	(1,052)	(6,252)
Net capital assets	4,807	27	185	5,019
Promissory note receivable	-	279,296	56,973	336,269
Other	-	12,198	-	12,198
Total noncurrent assets	4,807	291,521	57,158	353,486
TOTAL ASSETS	$ 93,620	$ 467,546	$ 127,671	$ 688,837

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF FUND NET POSITION
JUNE 30, 2013
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 191	$ 102	$ 325	$ 618
Other accrued liabilities	1,811	-	-	1,811
Accrued vacation, current portion	66	60	24	150
Benefits claims payable	2,665	-	-	2,665
Premiums payable	35,771	-	-	35,771
Total current liabilities	40,504	162	349	41,015
NONCURRENT LIABILITIES:				
Accrued vacation	205	213	133	551
Other postemployment benefit liability	1,476	1,124	490	3,090
TOTAL	42,185	1,499	972	44,656
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	4,807	27	185	5,019
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	466,020	126,514	592,534
UNRESTRICTED	46,628	-	-	46,628
TOTAL NET POSITION	$ 51,435	$ 466,047	$ 126,699	$ 644,181

See accompanying notes to the basic financial statements

(Concluded)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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	$ 5,821	$ 1,838	$ 2,228	$ 9,887
Premium revenue — self insurance	50,843	-	-	50,843
Increase in premium reserves	39,540	-	-	39,540
Other	208	2,479	226	2,913
Total operating revenues	96,412	4,317	2,454	103,183
OPERATING EXPENSES:				
Personnel services	2,741	1,743	1,053	5,537
Depreciation	1,375	10	84	1,469
Repairs and maintenance	9	-	70	79
General administration	2,403	161	1,384	3,948
Claims	46,819	-	-	46,819
Other	24	10	19	53
Total operating expenses	53,371	1,924	2,610	57,905
Operating income (loss)	43,041	2,393	(156)	45,278
NONOPERATING REVENUES (EXPENSE):				
Interest and investment income	409	1,346	299	2,054
Other	-	(1,000)	(7,214)	(8,214)
Total nonoperating revenues (expenses)	409	346	(6,915)	(6,160)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	43,450	2,739	(7,071)	39,118
CAPITAL CONTRIBUTIONS:	-	22,114	7,465	29,579
CHANGE IN NET POSITION	43,450	24,853	394	68,697
NET POSITION — Beginning of year	7,985	441,194	126,305	575,484
NET POSITION — End of year	$ 51,435	$ 466,047	$ 126,699	$ 644,181

See accompanying notes to the basic financial statements

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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 employer and employee for premium and benefit payments	$ 487,681	$ -	$ -	$ 487,681
Cash paid to suppliers	(2,757)	(149)	(1,352)	(4,258)
Cash paid to employees	(2,282)	(1,466)	(863)	(4,611)
Cash paid for premiums and benefit payments	(486,285)	-	-	(486,285)
Reserves returned by insurance carriers	15,914	-	-	15,914
Interest income from notes receivable	-	2,662	230	2,892
Administrative loan fees	-	1,962	2,283	4,245
Principal repayments on notes receivable	-	46,523	15,132	61,655
Disbursement of notes receivable proceeds	-	(28,536)	(3,316)	(31,852)
Net cash provided by operating activities	12,271	20,996	12,114	45,381
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State capital contributions	-	3,157	2,715	5,872
Proceeds from federal operating grants	-	18,856	4,497	23,353
Disbursement of federal operating grants	-	(2,581)	(368)	(2,949)
Net cash provided by noncapital financing activities	-	19,432	6,844	26,276
CASH FLOWS FROM INVESTING ACTIVITIES — Interest from and change in fair value of investments	398	1,308	282	1,988
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,669	41,736	19,240	73,645
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	-	107,108	45,684	152,792
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ 12,669	$ 148,844	$ 64,924	$ 226,437

(Continued)

COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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 TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income	$ 43,041	$ 2,393	$ (156)	$ 45,278
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	1,375	10	84	1,469
Premium reserves held by insurance companies	(36,405)	-	-	(36,405)
Principal forgiveness of loan	-	(1,000)	-	(1,000)
Decrease (increase) in assets:				
Receivables	550	19,294	11,876	31,720
Deposits	11,456	-	-	11,456
Prepaid expenses and other assets	(101)	-	-	(101)
Increase in liabilities:				
Vouchers and contracts payable	(240)	19	148	(73)
Other accrued liabilities	(2,584)	280	162	(2,142)
Benefits claim payable	(4,821)	-	-	(4,821)
Net cash provided by operating activities	$ 12,271	$ 20,996	$ 12,114	$ 45,381

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION — AGENCY FUNDS
JUNE 30, 2013
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 2,137	$ 208,917	$ 5,629	$ 216,683
RECEIVABLES — taxes	-	-	39,078	39,078
INVESTMENTS	33,479	279,636	82,856	395,971
OTHER ASSETS — primarily due from individuals, businesses, and counties	(26,506)	58,159	-	31,653
TOTAL ASSETS	$ 9,110	$ 546,712	$ 127,563	$ 683,385
LIABILITIES				
VOUCHERS PAYABLE	$ 9,110	$ 7	$ 597	$ 9,714
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	546,705	126,966	673,671
TOTAL LIABILITIES	$ 9,110	$ 546,712	$ 127,563	$ 683,385

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Amounts in thousands)

	Balance — July 1, 2012	Additions	Deductions	Balance — June 30, 2013
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 5,541	$ 7,551,805	$ (7,555,209)	$ 2,137
Due from individuals, businesses, and counties	46,169	7,479,130	(7,551,805)	(26,506)
Investments	6,772	33,479	(6,772)	33,479
Total assets	$ 58,482	$ 15,064,414	$ (15,113,786)	$ 9,110
Liabilities:				
Vouchers payable	$ 58,482	$ 9,110	$ (58,482)	$ 9,110
Due to individuals, businesses, and counties	-	-	-	-
Total liabilities	$ 58,482	$ 9,110	$ (58,482)	$ 9,110
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 443,341	$ 4,622,936	$ (4,857,360)	$ 208,917
Due from individuals, businesses, and counties	48,378	465,867	(456,086)	58,159
Investments	42,660	279,636	(42,660)	279,636
Total assets	$ 534,379	$ 5,368,439	$ (5,356,106)	$ 546,712
Liabilities:				
Vouchers payable	$ 74	$ 7	$ (74)	$ 7
Due to individuals, businesses, and counties	534,305	4,385,782	(4,373,382)	546,705
Total liabilities	$ 534,379	$ 4,385,789	$ (4,373,456)	$ 546,712
OTHER:				
Assets:				
Cash and cash equivalents	$ 29,582	$ 42,516	$ (66,469)	$ 5,629
Receivables	33,444	39,078	(33,444)	39,078
Investments	43,100	82,856	(43,100)	82,856
Total assets	$ 106,126	$ 164,450	$ (143,013)	$ 127,563
Liabilities:				
Vouchers payable	$ 65	$ 597	$ (65)	$ 597
Due to individuals, businesses, and counties	106,061	48,150	(27,245)	126,966
Total liabilities	$ 106,126	$ 48,747	$ (27,310)	$ 127,563
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 478,464	$ 12,217,257	$ (12,479,038)	$ 216,683
Receivables	33,444	39,078	(33,444)	39,078
Due from individuals, businesses, and counties	94,547	7,944,997	(8,007,891)	31,653
Investments	92,532	395,971	(92,532)	395,971
Total assets	$ 698,987	$ 20,597,303	$ (20,612,905)	$ 683,385
Liabilities:				
Vouchers payable	$ 58,621	$ 9,714	$ (58,621)	$ 9,714
Due to individuals, businesses, and counties	640,366	4,433,932	(4,400,627)	673,671
Total liabilities	$ 698,987	$ 4,443,646	$ (4,459,248)	$ 683,385

PART III: STATISTICAL SECTION

STATISTICAL SECTION ("UNAUDITED")

This Part of the State's comprehensive annual financial report presents detailed information as a context for understanding the information in the basic financial statements, note disclosures, and required supplementary information on the State's overall financial health.

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement No. 34 in 2002; schedules presenting Government-Wide information include information beginning in that year.*

STATE OF HAWAII

NET POSITION BY COMPONENT (ACCRUAL BASIS OF ACCOUNTING)
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
Governmental Activities:					
Net investment in capital assets	$ 2,863,379	$ 2,794,481	$ 3,326,245	$ 3,118,606	$ 3,298,144
Restricted	1,051,548	930,294	917,730	655,238	641,031
Unrestricted	(2,669,391)	(2,394,874)	(2,384,187)	(1,306,716)	(471,543)
Total governmental activities net assets	$ 1,245,536	$ 1,329,901	$ 1,859,788	$ 2,467,128	$ 3,467,632
Business-Type Activities:					
Net investment in capital assets	$ 1,599,483	$ 1,560,267	$ 1,476,136	$ 1,469,676	$ 1,527,018
Restricted	1,068,146	966,042	956,894	922,846	782,569
Unrestricted	899,740	649,583	579,383	493,163	597,624
Total business-type activities net assets	$ 3,567,369	$ 3,175,892	$ 3,012,413	$ 2,885,685	$ 2,907,211
Primary Government:					
Net investment in capital assets	$ 4,462,862	$ 4,354,748	$ 4,802,381	$ 4,588,282	$ 4,825,162
Restricted	2,119,694	1,896,336	1,874,624	1,578,084	1,423,600
Unrestricted	(1,769,651)	(1,745,291)	(1,804,804)	(813,553)	126,081
Total primary government net position	$ 4,812,905	$ 4,505,793	$ 4,872,201	$ 5,352,813	$ 6,374,843

STATE OF HAWAII

CHANGES IN NET POSITION (ACCRUAL BASIS OF ACCOUNTING)
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
Expenses:					
Governmental activities:					
General government	$ 531,839	$ 552,788	$ 535,434	$ 421,327	$ 564,356
Public safety	451,946	502,002	471,459	538,110	464,897
Highways	490,091	516,924	450,548	466,322	487,391
Conservation of natural resources	52,208	96,349	89,021	81,561	119,705
Health	813,190	773,288	816,525	858,476	843,826
Welfare	2,798,053	2,464,582	2,553,829	2,348,190	2,140,202
Lower education	2,592,125	2,598,444	2,545,980	2,616,768	2,656,592
Higher education	654,611	672,716	707,381	700,335	878,126
Other education	20,086	16,753	14,018	14,034	29,935
Culture and recreation	94,679	111,628	108,697	108,247	106,583
Urban redevelopment and housing	173,677	23,888	66,144	101,505	145,710
Economic development and assistance	172,602	209,460	238,315	209,611	158,808
Interest expense	241,677	243,938	239,836	210,243	127,576
Total governmental activities expenses	9,086,784	8,782,760	8,837,187	8,674,729	8,723,707
Business-type activities:					
Airports	366,918	353,541	354,368	336,127	347,089
Harbors	90,548	84,826	80,355	68,291	124,611
Unemployment compensation	336,931	468,610	561,548	686,141	437,553
Nonmajor proprietary fund	66,119	169,166	250,346	256,205	38,672
Total business-type activities expenses	860,516	1,076,143	1,246,617	1,346,764	947,925
Total Primary Government Expenses	$ 9,947,300	$ 9,858,903	$ 10,083,804	$ 10,021,493	$ 9,671,632
Program Revenues:					
Governmental activities					
Charges for services:					
General government	$ 267,081	$ 266,878	$ 270,078	$ 231,629	$ 206,431
Health	56,963	32,339	46,215	98,547	99,788
Other	170,603	121,928	112,479	111,295	119,126
Operating grants and contributions	2,589,537	2,370,437	2,837,464	2,598,141	2,260,551
Capital grants and contributions	96,184	97,322	132,825	144,445	145,771
Total governmental activities program revenues	3,180,368	2,888,904	3,399,061	3,184,057	2,831,667
Business-type activities					
Charges for services:					
Airports	431,708	343,279	387,484	324,577	290,464
Unemployment Compensation	507,096	533,963	535,243	486,476	169,976
Others	215,243	272,317	341,707	344,889	84,692
Capital grants and contributions	64,313	85,899	75,324	98,099	103,195
Total business-type activities program revenues	1,218,360	1,235,458	1,339,758	1,254,041	648,327
Total Primary Government Program Revenues	$ 4,398,728	$ 4,124,362	$ 4,738,819	$ 4,438,098	$ 3,479,994
Net (Expense) Revenue:					
Governmental activities	$ (5,906,416)	$ (5,893,856)	$ (5,438,126)	$ (5,490,672)	$ (5,892,040)
Business-type activities	357,844	159,315	93,141	(92,723)	(299,598)
Total Primary Government Net Expenses	$ (5,548,572)	$ (5,734,541)	$ (5,344,985)	$ (5,583,395)	$ (6,191,638)
General Revenues and Other Changes in Net Position:					
Governmental activities					
Taxes:					
General excise tax	$ 2,991,792	$ 2,774,636	$ 2,507,980	$ 2,279,310	$ 2,410,756
Net income tax — corporations and individuals	1,795,683	1,633,085	1,477,624	1,408,965	1,366,576
Public service companies tax	163,930	150,528	117,940	157,661	126,069
Transient accommodations tax	186,377	138,529	60,839	32,635	14,408
Tobacco and liquor taxes	161,066	170,824	173,851	149,596	135,388
Liquid fuel tax	87,645	88,842	91,265	82,780	88,006
Tax on premiums of insurance companies	133,585	119,472	140,586	105,848	95,181
Vehicle weight and registration tax	121,605	98,187	59,476	58,659	59,392
Rental motor/tour vehicle surcharge tax	52,112	106,417	43,892	40,401	39,751
Franchise tax	22,673	7,229	33,682	20,666	28,075
Others	80,081	70,873	67,799	32,165	19,215
Interest and investment income	25,502	5,347	55,852	124,516	(42,051)
Other	-	-	-	(3,034)	305
Total governmental activities	5,822,051	5,363,969	4,830,786	4,490,168	4,341,071
Business-type activities:					
Interest and investment income	14,633	4,164	33,587	68,950	4,639
Other	19,000	-	-	-	-
Total business-type activities	33,633	4,164	33,587	68,950	4,639
Total Primary Government	$ 5,855,684	$ 5,368,133	$ 4,864,373	$ 4,559,118	$ 4,345,710
Changes in Net Position:					
Governmental activities	$ (84,365)	$ (529,887)	$ (607,340)	$ (1,000,504)	$ (1,550,969)
Business-type activities	391,477	163,479	126,728	(23,773)	(294,959)
Total Primary Government	$ 307,112	$ (366,408)	$ (480,612)	$ (1,024,277)	$ (1,845,928)

STATE OF HAWAII

FUND BALANCES, GOVERNMENTAL FUNDS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
General Fund:					
Reserved	N/A	N/A	N/A	$ 243,485	$ 272,557
Unreserved	N/A	N/A	N/A	(210,551)	(87,537)
Total General Fund	N/A	N/A	N/A	$ 32,934	$ 185,020
All Other Governmental Funds:					
Reserved	N/A	N/A	N/A	$ 2,275,968	$ 2,801,012
Unreserved, reported in:					
Capital Projects Fund	N/A	N/A	N/A	(1,651,855)	(2,019,696)
Special Revenue Funds	N/A	N/A	N/A	293,625	255,844
Total All Other Governmental Funds	N/A	N/A	N/A	$ 917,738	$ 1,037,160
General Fund (Under GASB 54):					
Assigned Fund Balance	$ 271,020	$ 236,779	$ 210,164	N/A	N/A
Unassigned Fund Balance	1,154,253	570,659	346,882	N/A	N/A
Total General Fund	$ 1,425,273	$ 807,438	$ 557,046	N/A	N/A
All Other Governmental Funds (Under GASB 54):					
Restricted Fund Balance	$ 21,854	$ 109	$ 21,582	N/A	N/A
Committed Fund Balance	486,240	518,374	600,125	N/A	N/A
Assigned Fund Balance	612,762	532,466	339,337	N/A	N/A
Unassigned Fund Balance	$ (611,097)	(408,575)	(766,665)	N/A	N/A
Total All Other Governmental Funds	$ 509,759	$ 642,374	$ 194,379	N/A	N/A

Note: Beginning fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement 54. Fund balance has not been restated for prior years.

STATE OF HAWAII

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
Revenues:					
Taxes:					
General excise tax	$ 2,991,792	$ 2,774,636	$ 2,507,980	$ 2,279,310	$ 2,410,756
Net income tax — corporations and individuals	1,804,409	1,633,412	1,473,188	1,408,965	1,373,893
Public service companies tax	163,930	150,528	117,940	157,661	126,069
Transient accommodations tax	186,377	138,529	60,839	32,635	14,408
Tobacco and liquor taxes	161,066	170,824	173,851	149,596	135,388
Liquid fuel tax	87,645	88,842	91,265	82,780	88,006
Tax on premiums of insurance companies	133,585	119,472	140,586	105,848	95,181
Vehicle weight and registration tax	121,605	98,187	59,476	58,659	59,392
Rental motor/tour vehicle surcharge tax	52,112	106,417	43,892	40,401	39,751
Franchise tax	22,673	7,229	33,682	20,666	28,075
Other	80,079	70,873	67,799	32,165	19,215
Total taxes	5,805,273	5,358,949	4,770,498	4,368,686	4,390,134
Interest and investment income (loss)	25,502	5,347	55,854	124,518	(42,051)
Charges for current services	369,269	337,765	348,108	364,893	357,078
Intergovernmental	2,372,480	2,238,639	2,567,266	2,432,369	2,090,058
Rentals	28,633	25,421	23,319	19,712	21,107
Fines, forfeitures, and penalties	36,802	35,083	34,712	35,982	33,888
Licenses and fees	46,839	46,390	41,557	36,641	33,324
Revenues from private sources	104,670	65,085	54,857	57,850	63,401
Other	235,516	152,091	343,318	182,367	246,369
Total revenues	9,024,984	8,264,770	8,239,489	7,623,018	7,193,308
Expenditures:					
Current:					
General government	408,538	487,596	487,848	436,290	597,210
Public safety	432,024	454,957	423,716	457,058	435,414
Highways	418,991	414,629	376,780	442,971	442,421
Conservation of natural resources	92,601	98,428	93,600	88,873	120,693
Health	779,755	729,841	757,482	801,923	798,026
Welfare	2,773,241	2,443,936	2,526,743	2,315,726	2,119,481
Lower education	2,358,763	2,330,130	2,208,303	2,325,066	2,454,668
Higher education	654,611	672,716	707,380	700,335	878,127
Other education	20,086	16,753	14,018	14,033	29,912
Culture and recreation	107,940	109,974	117,306	108,536	107,302
Urban redevelopment and housing	66,243	48,484	73,789	115,796	179,819
Economic development and assistance	157,468	147,445	158,104	166,320	169,547
Housing	112,614	46,133	61,352	24,153	1,909
Other	32,716	12,108	12,223	4,460	1,175
Debt service					
Principal	399,382	313,721	191,244	179,624	204,604
Interest and others	288,267	274,039	266,737	248,551	197,118
Total Expenditures	9,103,240	8,600,890	8,476,625	8,429,715	8,737,426
Deficiency of Revenues Over Expenditures	(78,256)	(336,120)	(237,136)	(806,697)	(1,544,118)
Other Financing Sources (Uses):					
Proceeds from borrowing and refunding	1,066,848	1,600,308	-	1,150,482	1,174,768
Payments to escrow agent	(503,372)	(565,801)	-	(619,708)	(349,697)
Transfers in	1,033,917	950,717	921,433	721,810	761,393
Transfers out	(1,033,917)	(950,717)	(921,433)	(721,810)	(761,393)
Other	-	-	37,889	4,415	-
Total Other Financing Sources	563,476	1,034,507	37,889	535,189	825,071
Net Change in Fund Balances	$ 485,220	$ 698,387	$ (199,247)	$ (271,508)	$ (719,047)

STATE OF HAWAII

PERSONAL INCOME BY INDUSTRY
LAST TEN FISCAL YEARS
(Amounts in millions)

	For the Fiscal Year Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Farm Earnings	$ 243	$ 288	$ 288	$ 250	$ 232	$ 220	$ 213	$ 210	$ 213	$ 221
Nonfarm Wage and Salary Workers										
Goods-producing industries:										
Forestry, fishing-related activities, and other	60	60	42	45	36	47	42	53	54	56
Mining	39	35	33	51	44	45	55	53	50	45
Construction	3,236	3,046	2,843	2,598	2,714	3,271	3,188	3,004	2,736	2,231
Manufacturing – durable and nondurable goods	804	767	768	766	807	874	1,003	1,000	916	887
Subtotal Goods-Producing Industries	4,139	3,908	3,686	3,460	3,601	4,237	4,288	4,110	3,756	3,219
Service-producing industries										
Transportation, communication, and utilities	2,178	1,889	1,783	1,718	1,714	1,826	1,926	1,831	1,760	1,631
Trade	3,929	3,768	3,666	3,651	3,636	3,817	3,654	3,540	3,366	3,151
Information	692	645	711	732	657	711	759	758	690	694
Finance, insurance, and real estate	2,752	2,329	2,081	2,014	2,044	2,126	2,311	2,367	2,308	2,155
Service	16,423	15,438	15,075	14,901	14,514	14,723	13,611	13,013	12,226	11,592
State and local government	5,873	5,425	5,327	5,609	5,609	5,372	5,023	4,747	4,443	4,101
Federal government	8,507	10,094	9,531	9,252	9,077	8,258	7,745	7,249	6,751	6,280
Subtotal Service-Producing Industries	40,354	39,588	38,174	37,877	37,251	36,833	35,029	33,505	31,544	29,604
Total Nonfarm Wage and Salary Workers	44,493	43,496	41,860	41,337	40,852	41,070	39,317	37,615	35,300	32,823
Other(1)	18,473	16,144	15,981	14,661	13,329	12,891	10,601	9,514	8,598	7,984
Total Personal Income	$ 63,209	$ 59,928	$ 58,129	$ 56,248	$ 54,413	$ 54,181	$ 50,131	$ 47,339	$ 44,111	$ 41,028
Total direct income tax rate(2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.
(2) The total direct rate for personal income is not available.
Source: State of Hawaii Department of Business, Economic Development and Tourism — Data Book and Quarterly Statistical and Economic Report (QSER)
N/A Not available.

STATE OF HAWAII

PERSONAL INCOME TAX RATES
LAST SIX CALENDAR YEARS

	Top Income Tax Rate is Applied to Taxable Income in Excess of					
Year	Top Rate	Single	Top Rate	Married Filing Jointly	Top Rate	Head of Household
2013	11.00% + $16,379	$ 200,000	11.00% + $32,757	$ 400,000	11.00% + $24,568	$300,000
2012	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2011	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2010	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2009	11.00% + $16,379	200,000	11.00% + $32,757	400,000	11.00% + $24,568	300,000
2008	8.25% + $3,214	48,000	8.25% + $6,427	96,000	8.25% + $4,820	72,000

Source: State of Hawaii, Department of Taxation.

STATE OF HAWAII

TAXABLE SALES BY INDUSTRY
LAST FIVE FISCAL YEARS
(Amounts in millions)

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
Taxable Sales by Activities:					
Retailing	$ 29,636	$ 29,095	$ 25,887	$ 23,919	$ 24,318
Services	12,985	12,696	11,944	11,154	11,059
Contracting	7,547	6,253	5,687	5,864	7,631
Hotel rentals	3,871	3,431	3,024	2,606	2,812
All other rentals	6,377	6,154	5,999	5,778	6,094
All other (4%)	5,337	5,160	4,825	4,360	4,375
Subtotal	65,753	62,789	57,366	53,681	56,289
Producing	399	401	370	340	405
Manufacturing	639	681	698	704	809
Wholesaling	14,430	14,442	13,121	12,207	12,502
Use (0.5%)	8,867	8,005	6,669	6,430	6,883
Services (Intermediary)	628	653	577	572	611
Insurance solicitors	464	477	480	502	535
Subtotal	25,427	24,659	21,915	20,755	21,745
Total All Activities	$ 91,180	$ 87,448	$ 79,281	$ 74,436	$ 78,034

General excise and use tax is imposed on the gross income received by the business as follows:

- 4% of sales of tangible personal tangible property, services, contracting, theater amusement and broadcasting, commissions, transient accommodations rentals, other rentals, interest, and other business activities;

- 0.5% of sales from wholesaling, manufacturing, producing, wholesale services, and imports for resale;

- 0.15% on insurance producer commissions.

Source: State of Hawaii, Department of Taxation — Monthly Tax Collection Reports.

STATE OF HAWAII

SALES TAX REVENUE PAYERS BY INDUSTRY
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	2013		2012		2011		2010		2009	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
Retailing	$1,185,446	40.3 %	$1,163,805	43.1 %	$1,035,465	41.5 %	$ 956,761	41.3 %	$ 972,728	40.1 %
Services	519,419	17.6 %	507,864	18.8%	477,753	19.3 %	446,142	19.3 %	442,356	18.3 %
Contracting	301,875	10.3 %	250,122	9.3%	227,497	9.1 %	234,562	10.1 %	305,241	12.6 %
Theater, amusement, etc.	15,986	0.5 %	15,776	0.6%	14,945	0.6 %	13,378	0.6 %	13,557	0.6 %
Interest	3	0.0 %	4	- %	74	- %	191	- %	339	- %
Commissions	42,064	1.4 %	38,848	1.4%	36,574	1.5 %	33,024	1.4 %	35,230	1.5 %
Hotel rentals	154,837	5.3 %	137,222	5.1%	120,954	4.8 %	104,260	4.5 %	112,484	4.6 %
All other rentals	255,074	8.7 %	246,151	9.1%	239,944	9.6 %	231,123	10.0 %	243,762	10.1 %
Use (4%)	41,015	1.4 %	41,797	1.6%	37,316	1.5 %	34,484	1.5 %	34,088	1.4 %
All other (4%)	114,396	3.9 %	109,989	4.1%	104,073	4.2 %	93,327	4.0 %	91,761	3.8 %
Pineapple canning	-	%	-	- %	-	- %	-	- %	-	- %
Producing	1,997	0.1 %	2,004	0.1%	1,850	0.1 %	1,697	0.1 %	2,023	0.1 %
Manufacturing	3,194	0.1 %	3,402	0.1%	3,488	0.1 %	3,517	0.2 %	4,045	0.2 %
Wholesaling	72,149	2.4 %	72,210	2.7%	65,608	2.6 %	61,036	2.6 %	62,509	2.6 %
Use (1/2%)	44,337	1.5 %	40,026	1.5%	33,347	1.3 %	32,152	1.4 %	34,415	1.4 %
Services (Intermediary)	3,139	0.1 %	3,265	0.1%	2,886	0.1 %	2,862	0.1 %	3,054	0.1 %
Insurance solicitors	697	0.0 %	716	0.0	721	- %	753	- %	803	- %
Unallocated collections	188,859	6.4 %	64,750	2.4 %	93,312	3.7 %	67,165	2.9 %	61,855	2.6 %
Total	$2,944,487	100.0 %	$2,697,951	100.0 %	$2,495,807	100.0 %	$2,316,434	100.0 %	$2,420,250	100.0 %

Source: State of Hawaii, Department of Taxation — Monthly tax collection reports

Note: Information for number of filers is not available.

STATE OF HAWAII

RATIOS OF OUTSTANDING DEBT BY TYPE
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
Governmental Activities:					
General obligation bonds	$ 5,534,921	$ 5,475,348	$ 4,987,544	$ 5,157,198	$ 4,779,666
Revenue bonds	441,150	468,180	378,625	400,215	420,605
Capital leases	89,879	95,340	100,520	64,385	71,685
Total Governmental Activities	6,065,950	6,038,868	5,466,689	5,621,798	5,271,956
Business-Type Activities:					
General obligation bonds	32,934	34,611	36,221	37,362	38,329
Revenue bonds	1,326,112	1,370,314	1,410,624	1,248,680	861,423
Total Business-Type Activities	1,359,046	1,404,925	1,446,845	1,286,042	899,752
Total Primary Government	$ 7,424,996	$ 7,443,793	$ 6,913,534	$ 6,907,840	$ 6,171,708
Hawaii Total Personal Income	$ 63,209,000	$ 59,928,000	$ 58,129,000	$ 56,248,000	$ 54,413,000
Debt as a Percentage of Personal Income	11.7 %	12.4 %	11.9 %	12.3 %	11.3 %
Hawaii Population	1,404	1,392	1,375	1,300	1,295
Amount of Debt Per Capita	$ 5,288	$ 5,348	$ 5,028	$ 5,314	$ 4,766

Source: State of Hawaii Comprehensive Annual Financial Reports.
State of Hawaii, Department of Business, Economic Development and Tourism — Data Book, Census Data and Quarterly Statistic and Economic Reports (QSER).

Note: Details regarding the State's outstanding debt can be found in the notes to the basic financial statements

STATE OF HAWAII

RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING
LAST FIVE FISCAL YEARS
(Amounts in thousands except ratio data)

Fiscal Year	Taxable Sales (1)	Population (2)	General Obligation Bonded Debt (3)(4)	Less Debt Service Monies Available (3)	Net General Obligation Bonded Debt	Percentage of Taxable Sales	Net General Obligation Bonded Debt Per Capita
2013	$ 91,181,000	1,404	$ 5,534,921	$ 63	5,534,858	6.1 %	$ 3,942
2012	87,448,000	1,392	5,475,348	64	5,475,284	6.3	3,933
2011	79,281,000	1,375	4,987,544	109	4,987,435	6.3	3,627
2010	74,436,000	1,300	5,157,198	118	5,157,080	6.9	3,967
2009	78,034,000	1,295	4,779,666	68	4,779,598	6.1	3,691

(1) Source: State of Hawaii, Department of Taxation.
(2) Source: State of Hawaii, Department of Business, Economic Development and Tourism - Census Data.
(3) Source: State of Hawaii, Department of Accounting and General Services, Accounting Division.
(4) Excludes Enterprise Funds and Component Unit – UH general obligation bonds.

STATE OF HAWAII

LEGAL DEBT MARGIN INFORMATION
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
Average General Fund revenues of the three preceding fiscal years	$ 5,659,152	$ 5,197,547	$ 4,992,943	$ 5,032,973	$ 5,126,782
Constitutional debt limit percentage	18.5 %	18.5 %	18.5 %	18.5 %	18.5 %
Constitutional debt limit for total principal and interest payable in a current or future year	1,046,943	961,546	923,694	931,100	948,455
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ended June 30, 2012)	(693,592)	(667,041)	(618,711)	(610,255)	(563,266)
Legal debt margin	$ 353,351	$ 294,505	$ 304,983	$ 320,845	$ 385,189
Legal debt margin as a percentage of the debt limit	33.8 %	30.6 %	33.0 %	34.5 %	40.6 %

The formula for the legal debt limit is contained in Article VII, Section 13 of the State Constitution.

STATE OF HAWAII

PLEDGE REVENUE COVERAGE
LAST FIVE FISCAL YEARS
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
Revenue Bonds – Airports					
Gross revenue(1)	$ 385,841	$ 319,542	$ 322,639	$ 295,087	$ 288,583
Less: Operating expenses(2)	244,328	230,224	218,290	214,208	233,896
Net available revenue	141,513	89,318	104,349	80,879	54,687
Debt service requirements:					
Principal(3)	40,305	30,579	25,370	23,615	22,310
Interest(4)	40,705	34,440	35,319	21,300	17,453
Total Debt Service	81,010	65,019	60,689	44,915	39,763
Coverage(5)	175 %	137 %	172 %	180 %	138 %
Revenue Bonds – Harbors:					
Gross revenue(6)	$ 114,640	$ 104,678	$ 88,018	$ 74,155	$ 80,896
Less: Operating expenses(7)	44,048	41,202	37,650	36,930	47,814
Net available revenue	70,592	63,476	50,368	37,225	33,082
Debt service requirements	31,531	27,770	27,965	23,226	23,167
Coverage(8)	224 %	229 %	180 %	160 %	143 %
Revenue Bonds – Highways:					
Revenue	$ 428,136	$ 232,543	$ 197,142	$ 184,852	$ 189,498
Less: Operating expenses	245,863	173,811	165,857	179,400	189,987
Net available revenue	182,273	58,732	31,285	5,452	(489)
Debt service:					
Principal	26,320	22,465	21,570	20,535	16,150
Interest	21,047	18,906	17,195	18,028	15,823
Total Debt Service	47,367	41,371	38,765	38,563	31,973
Coverage(9)	385 %	142 %	81 %	14 %	2 %
Revenue Bonds – DHHL:					
Revenue	$ 12,585	$ 12,078	$ 12,036	$ 11,939	$ -
Less: Operating expenses	-	-	-	-	-
Net available revenue	12,585	12,078	12,036	11,939	-
Debt service:					
Principal	710	680	655	640	-
Interest	2,301	2,328	2,254	2,370	-
Total Debt Service	3,011	3,008	2,909	3,010	-
Coverage(10)	418 %	402 %	414 %	397 %	- %

(1) Total operating revenues plus interest income and federal operating grants, exclusive of interest earned on investment in financing leases.
(2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for major maintenance, renewal, and replacement plus amounts required to be paid into the General Fund for general obligation bond requirements.
(3) On January 5, 2005, Airports disbursed $69,300 for the Airport Revenue Fund to the paying agent to redeem the outstanding balance of the Airports System Revenue Bonds, Refunding Series of 2003 in its entirety
(4) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.
For fiscal year 2005, Airports deposited $20,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2005 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds.
For fiscal 2008, Airports deposited $10,000 of available funds into the Airports Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2008 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."
(5) Airports revenue bond indentures require a minimum debt service coverage percentage of 125%.
(6) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.
(7) Total operating expenses other than depreciation, less State of Hawaii surcharge for central service expenses.
(8) Harbors revenue bond indentures require a minimum debt service coverage percentage of 125%.
(9) Highways revenue bond indentures require a minimum debt service coverage percentage of 100% during a routine year, 200% during the year bonds are issued, and 135% is required for any year Highways' funds are transferred out (i.e., General Fund).
(10) DHHL revenue bond indentures require a minimum debt service coverage percentage of 125%.

Coverage equals net available revenue divided by debt services.

Source: Airports Audited Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Airports Division
Harbors Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Harbors Division
Highways Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Highways Division

STATE OF HAWAII

DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Source	For the Fiscal Year Ended June 30, 2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Population (in thousands):										
State	1,404	1,392	1,375	1,300	1,298	1,292	1,299	1,285	1,266	1,253
Percentage change	0.86 %	1.24%	5.77 %	0.15 %	0.46 %	0.54 %	1.09 %	1.50 %	1.04 %	1.13 %
National	316,129	313,914	311,592	308,746	307,007	304,375	301,580	298,593	295,753	293,046
Percentage change	0.71 %	0.75 %	0.92 %	0.57 %	0.86 %	0.93 %	1.00 %	0.96 %	0.92 %	0.94 %
Total Personal Income (in millions):										
State	63,209	59,928	58,129	56,248	54,413	54,181	50,131	47,339	44,111	41,028
Percentage change	5.47 %	3.09 %	3.34 %	3.37 %	0.43 %	8.08 %	5.90 %	7.32 %	7.51 %	8.44 %
National	13,904,502	13,150,560	12,691,347	12,530,101	12,015,535	12,225,589	11,879,836	11,256,516	10,476,669	9,928,790
Percentage change	5.73 %	3.62 %	1.29 %	4.28 %	(1.72)%	2.91 %	5.54 %	7.44 %	5.52 %	5.97 %
Per Capita Personal Income (in thousands):										
State	45,021	43,052	42,276	43,268	42,018	42,099	39,073	37,013	34,788	32,718
Percentage change	4.57 %	1.84 %	(2.29)%	2.97 %	(0.19)%	7.74 %	5.57 %	6.40 %	6.33 %	7.23 %
National	43,984	41,892	40,731	40,584	39,138	40,166	39,392	37,698	35,424	33,881
Percentage change	5.00 %	2.85 %	0.36 %	3.69 %	(2.56)%	1.96 %	4.49 %	6.42 %	4.45 %	4.99 %
Resident Civilian Labor Force and Employment:										
Civilian labor force employed	615,546	615,333	591,329	587,304	594,500	620,000	623,150	622,300	609,850	598,200
Unemployed	33,913	43,321	39,941	41,600	43,250	26,000	17,000	15,800	17,250	19,950
Unemployment rate	5.22 %	6.58 %	6.33 %	6.61 %	6.78 %	4.02 %	2.66 %	2.48 %	2.75 %	3.25 %

Source: State of Hawaii, Department of Business, Economic Development and Tourism - Census, Data Book and Quarterly Statistical Economic Report (QSER).
Bureau of Economic Analysis - Regional Economic Accounts
State of Hawaii, Department of Labor and Industrial Relations - Hawaii Workforce Infonet (HIWI)

Note: The Per Capita Personal Income amount is computed by dividing Personal Income by Population, multiplied by 1,000.

STATE OF HAWAII

TEN LARGEST PRIVATE SECTOR EMPLOYERS
2013 AND 2004

2013			2004		
Employer	Employees	Percentage of Total State Employment	Employer	Employees	Percentage of Total State Employment
Bank of Hawaii Corp	2,343	0.4%	Aloha Airgroup Inc.	3,558	0.6%
Hawaii Pacific Health	5,809	0.9%	Bank of Hawaii Corp	2,825	0.5%
Hawaiian Airlines Inc.	4,906	0.8%	Hawaii Pacific Health	5,434	0.9%
Hawaiian Electric Industries, Inc.	3,870	0.6%	Hawaiian Electric Industries, Inc.	3,197	0.5%
Kaiser Permanente Hawaii	4,564	0.7%	Hawaiian Airlines, Inc.	3,300	0.5%
Kamehameha Schools	2,400	0.4%	Kaiser Permanente Hawaii	3,790	0.6%
Kyo-ya Company LLC	3,310	0.5%	Kyo-ya Co. Ltd	3,753	0.6%
L&L Drive-Inn and L&L Hawaiian Barbecu	2,056	0.3%	Marriott International	5,200	0.8%
Securitas Security Services USA, Inc.	2,700	0.4%	McDonald's Restaurants of Hawai	3,750	0.6%
The Queen's Health Systems	5,234	0.8%	The Queen's Health Systems	3,689	0.6%

Source:
Hawaii Business, Annual August Issue
State of Hawaii, Department of Labor and Industrial Relations - Hawaii Workforce Infonet - Labor (Total State Employment)

Notes:
Total Annual Average Employment for Hawaii for fiscal year 2013 - 649,000 and for fiscal year 2004 - 617,000

Listed alphabetically

STATE OF HAWAII

STATE EMPLOYEES BY FUNCTION
LAST FIVE FISCAL YEARS

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
General government	4,419	4,394	4,381	4,381	4,752
Public safety	2,981	2,903	2,864	2,880	3,089
Transportation	2,275	2,202	2,160	2,158	2,290
Conservation of natural resources	972	929	941	983	1,146
Health	7,136	6,919	6,876	6,863	7,266
Welfare	1,940	1,800	1,788	1,848	2,404
Lower education	21,976	22,065	21,917	22,090	22,675
Higher education	8,978	8,795	8,687	8,732	9,066
Other education	-	454	473	482	516
Urban redevelopment and housing	116	127	130	146	154
Economic development and assistance	781	815	816	835	1,141
Total	51,574	51,403	51,033	51,398	54,499

Source: State of Hawaii, Department of Human Resources Development.

STATE OF HAWAII

OPERATING INDICATORS BY FUNCTION
LAST FIVE FISCAL YEARS

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
General Government					
Tax Commission:					
Total individual net income returns	612,373	703,262	747,237	665,057	682,178
Number of individual net income returns filed electronically	397,178	430,421	388,463	322,515	308,366
Percentage of individual net income returns transmitted electronically	64.86 %	61.20 %	51.99 %	48.49 %	45.20 %
Public Safety					
Inmate population:					
In-state facilities	4,438	4,396	4,423	4,047	3,928
Out-of-state facilities	1,415	1,677	1,667	1,940	2,077
Total	5,853	6,073	6,090	5,987	6,005
Conservation of Natural Resources					
Department of Parks and Recreation:					
Number of state-owned parks	53	53	53	53	53
Health					
Environmental health:					
Air quality sites monitored	14	12	14	13	14
Water quality stations	173	193	201	290	349
Mental health:					
Adult consumers served	10,728	11,062	11,194	14,633	15,772
Individuals with developmental disabilities served	2,599	2,558	2,438	2,661	2,879
Revolving loan funds	133	120	109	107	102
Welfare					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF):					
Families per-month average	10,075	10,300	10,014	9,448	8,661
Average time on assistance	14.6	13.5	13.0	15.0	14.0
Monthly benefits paid for the month of July (in millions)	$ 5.47	$ 6.42	$ 6.17	$ 5.29	$ 3.46
General assistance:					
Individuals per month	5,687	5,633	5,298	5,068	5,014
Food stamp program:					
Number of persons participating	187,062	172,676	154,496	133,043	109,268
Number of households participating	94,649	86,418	77,133	66,885	54,925
Benefits issued (in millions)	$ 40.33	$ 37.18	$ 33.42	$ 28.74	$ 20.22
Medicaid programs:					
MedQuest enrollment (in thousands)	292,423	287,902	272,218	259,307	235,203
Lower Education					
Number of schools	286	286	287	286	289
Number of students	183,251	181,213	178,208	178,649	177,871
Staff:					
Classroom teachers	11,632	11,458	11,046	11,262	11,294
Librarians	192	199	204	225	249
Counselors	629	627	618	646	660
Administrators	823	806	734	728	747
Other support staff	8,987	8,975	8,408	8,607	8,654
Total	22,263	22,065	21,010	21,468	21,604

STATE OF HAWAII

OPERATING INDICATORS BY FUNCTION (CONT'D)
LAST FIVE FISCAL YEARS

	For the Fiscal Year Ended June 30,				
	2013	2012	2011	2010	2009
Higher Education					
Enrollment:					
Number of credit students	58,941	60,295	60,330	60,090	57,945
Degrees earned:					
Certificates/Associate Degrees/Advanced Professional Certificates	4,097	3,638	3,324	3,025	2,785
Bachelor's degrees	4,236	4,055	3,796	3,593	3,705
Master's degrees/Professional Diploma	1,095	1,287	1,269	1,216	1,185
Doctor's degrees/First Professional	508	494	496	351	354
Other	65	154	103	106	55
Total	10,001	9,628	8,988	8,291	8,084
Degrees by campus/college:					
University of Hawaii at Manoa	4,737	4,767	4,675	4,414	4,496
University of Hawaii at Hilo	809	915	731	601	614
University of Hawaii at West Oahu	349	301	255	242	221
Hawaii Community College	552	452	405	426	386
Honolulu Community College	551	565	559	486	504
Kapiolani Community College	1,193	987	851	783	702
Kauai Community College	216	196	208	162	163
Leeward Community College	770	721	657	608	503
Maui College	601	560	482	416	364
Windward Community College	223	164	165	153	131
Total	10,001	9,628	8,988	8,291	8,084

Notes: Migration to new registration system at the UH Community Colleges in Fall 2006 and at UH at Manoa, UH at Hilo, and UH at West Oahu in Fall 2006.

Source: General Government – State of Hawaii, Department of Taxation.
Public Safety – State of Hawaii, Department of Public Safety.
Conservation of Natural Resources – State of Hawaii, Department of Land and Natural Resources.
Health – State of Hawaii, Department of Health.
Welfare – State of Hawaii, Department of Human Services.
Lower Education – State of Hawaii, Department of Education.
Higher Education – University of Hawaii.

See accompanying independent auditors' report.

STATE OF HAWAII

CAPITAL ASSETS STATISTICS BY FUNCTION
LAST THREE FISCAL YEARS

	For the Fiscal Year Ended June 30,		
	2013	2012	2011
General Government			
Department of Accounting and General Services:			
Buildings	74	74	74
Vehicles	608	600	592
Department of the Attorney General:			
Buildings	5	5	5
Vehicles	3	3	3
The Judiciary:			
Buildings	19	18	18
Vehicles	18	18	17
Other Departments:			
Buildings	22	24	24
Vehicles	4	4	4
Public Safety			
Department of Public Safety:			
Buildings and Correction Facilities	74	74	74
Vehicles	274	277	278
Department of Defense:			
Buildings	98	97	97
Vehicles	118	112	81
Department of Commerce and Consumer Affairs:			
Buildings	4	4	4
Vehicles	-	-	-
Highways			
Department of Transportation:			
Buildings	36	36	34
Vehicles	984	951	958
Conservation of Natural Resources			
Department of Land and Natural Resources:			
Land area (in square miles)	6,423	6,423	6,423
Buildings	94	93	95
Vehicles	788	756	758
Department of Agriculture:			
Buildings	32	32	32
Vehicles	167	170	176
Health			
Department of Health:			
Buildings	74	74	74
Vehicles	238	252	259
Welfare			
Department of Human Services:			
Buildings	18	18	18
Vehicles	110	107	111
Lower Education			
Department of Education:			
Buildings	8	8	8
Other Education			
Department of Education — Libraries:			
Buildings	38	34	34
Vehicles	27	28	27
Urban Redevelopment and Housing			
Department of Hawaiian Home Lands:			
Buildings	18	18	18
Vehicles	37	33	34
Economic Development and Assistance			
Department of Business, Economic Development, and Tourism:			
Buildings	32	33	33
Vehicles	30	32	33
Department of Labor and Industrial Relations:			
Buildings	8	8	8
Vehicles	2	2	2

Source: Buildings and Vehicles — State of Hawaii, Department of Accounting and General Services.
Lane Miles and Bridges — State of Hawaii, Department of Transportation.
Land Area — State of Hawaii, Data Book 2012.

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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.

8. The term "special purpose revenue bonds" means 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.

9. The term "user tax" means 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; provided that mortgage recording taxes shall constitute user taxes of a state property insurance program.

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;

6. Not for profit private nonsectarian and sectarian elementary schools, secondary schools, colleges and universities; or

7. Agricultural enterprises serving important agricultural lands,

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 to assist not-for-profit private nonsectarian and sectarian elementary schools, secondary schools, colleges, and universities, 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. 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 or persons under contract or from any security for such contract or contracts 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 bond issue 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 October 1, 2014

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 1, 1996	$ 150,000,000, Series CM, non-callable	6.500%	December 1, 2014 - 2016	@	8,330,000.00	$ 24,990,000.00
February 15, 2002	$ 319,290,000, Series CY, non-callable refunding	5.750%	February 1, 2015	@	43,525,000.00	$ 43,525,000.00
June 15, 2005	$ 225,000,000, Series DF, callable	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, 2019	@	975,000.00	
		5.000%	July 1, 2020	@	3,405,000.00	
		3.875%	July 1, 2021	@	185,000.00	
		5.000%	July 1, 2021	@	5,750,000.00	
		4.000%	July 1, 2024	@	270,000.00	
		4.000%	July 1, 2025	@	2,900,000.00	
		5.000%	July 1, 2025	@	16,145,000.00	$ 41,270,000.00
June 15, 2005	$ 722,575,000, Series DG, callable	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	$ 277,760,000.00
March 23, 2006	$ 350,000,000, Series DI, callable	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	
		4.200%	March 1, 2021	@	105,000.00	
		4.250%	March 1, 2022	@	135,000.00	
		5.000%	March 1, 2025	@	6,940,000.00	
		4.300%	March 1, 2026	@	460,000.00	
		5.000%	March 1, 2026	@	28,975,000.00	$ 73,820,000.00
April 12, 2007	$ 350,000,000, Series DJ, callable	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, 2019	@	17,610,000.00	
		5.000%	April 1, 2020	@	5,910,000.00	
		5.000%	April 1, 2021	@	21,960,000.00	
		5.000%	April 1, 2022	@	23,055,000.00	
		5.000%	April 1, 2023	@	11,930,000.00	
		5.000%	April 1, 2024	@	4,000,000.00	
		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	$ 220,575,000.00
May 20, 2008	$ 375,000,000, Series DK, callable	3.750%	May 1, 2015	@	4,420,000.00	
		5.000%	May 1, 2015	@	12,520,000.00	
		5.000%	May 1, 2016	@	17,730,000.00	
		5.000%	May 1, 2017	@	18,615,000.00	
		5.000%	May 1, 2018	@	13,445,000.00	
		4.000%	May 1, 2019	@	3,600,000.00	
		4.250%	May 1, 2019	@	6,350,000.00	
		5.000%	May 1, 2019	@	9,495,000.00	
		4.100%	May 1, 2020	@	9,705,000.00	
		5.000%	May 1, 2020	@	11,760,000.00	
		4.200%	May 1, 2021	@	3,125,000.00	

		5.000%	May 1, 2021	@	19,325,000.00	
		4.250%	May 1, 2022	@	2,335,000.00	
		5.000%	May 1, 2022	@	21,215,000.00	
		4.300%	May 1, 2023	@	3,735,000.00	
		5.000%	May 1, 2023	@	20,975,000.00	
		4.375%	May 1, 2024	@	1,685,000.00	
		5.000%	May 1, 2024	@	24,235,000.00	
		4.400%	May 1, 2025	@	2,445,000.00	
		5.000%	May 1, 2025	@	24,760,000.00	
		4.400%	May 1, 2026	@	1,900,000.00	
		5.000%	May 1, 2026	@	26,650,000.00	
		4.500%	May 1, 2027	@	3,255,000.00	
		5.000%	May 1, 2027	@	26,710,000.00	
		4.500%	May 1, 2028	@	5,670,000.00	
		5.000%	May 1, 2028	@	25,780,000.00	$ 321,440,000.00
May 20, 2008	$ 29,010,000, Series DL, non-callable (refunding)	3.750%	May 1, 2015	@	4,120,000.00	
		3.500%	May 1, 2016	@	4,275,000.00	
		3.700%	May 1, 2017	@	4,425,000.00	
		5.000%	May 1, 2018	@	4,590,000.00	$ 17,410,000.00
December 16, 2008	$ 100,000,000, Series DN, callable	5.000%	August 1, 2015	@	4,430,000.00	
		5.000%	August 1, 2016	@	4,660,000.00	
		5.000%	August 1, 2017	@	4,900,000.00	
		4.250%	August 1, 2018	@	935,000.00	
		5.000%	August 1, 2018	@	4,210,000.00	
		5.000%	August 1, 2019	@	5,405,000.00	
		5.000%	August 1, 2020	@	5,685,000.00	
		5.000%	August 1, 2021	@	5,975,000.00	
		5.000%	August 1, 2022	@	6,280,000.00	
		5.000%	August 1, 2023	@	6,600,000.00	
		5.125%	August 1, 2024	@	6,945,000.00	
		5.250%	August 1, 2025	@	7,315,000.00	
		5.500%	August 1, 2026	@	7,720,000.00	
		5.500%	August 1, 2027	@	8,155,000.00	
		5.500%	August 1, 2028	@	8,620,000.00	$ 87,835,000.00
December 16, 2008	$ 101,825,000, Series DO, non-callable (refunding)	3.500%	August 1, 2015	@	6,425,000.00	
		5.000%	August 1, 2015	@	6,455,000.00	
		4.000%	August 1, 2016	@	6,710,000.00	
		5.000%	August 1, 2016	@	6,745,000.00	
		4.000%	August 1, 2017	@	4,835,000.00	
		5.000%	August 1, 2017	@	9,255,000.00	
		4.250%	August 1, 2018	@	7,350,000.00	
		5.000%	August 1, 2018	@	7,410,000.00	$ 55,185,000.00
December 16, 2008	$ 26,000,000, Series DP, non-callable (taxable)	5.430%	August 1, 2015	@	4,645,000.00	
		5.680%	August 1, 2016	@	4,910,000.00	$ 9,555,000.00
June 23, 2009	$ 500,000,000, Series DQ, callable	5.000%	June 1, 2015	@	21,345,000.00	
		5.000%	June 1, 2016	@	18,310,000.00	
		5.000%	June 1, 2017	@	23,535,000.00	
		5.000%	June 1, 2019	@	25,945,000.00	
		3.600%	June 1, 2020	@	1,330,000.00	
		5.000%	June 1, 2020	@	25,910,000.00	
		3.750%	June 1, 2021	@	2,015,000.00	
		5.000%	June 1, 2021	@	26,570,000.00	
		4.000%	June 1, 2022	@	475,000.00	
		5.000%	June 1, 2022	@	29,515,000.00	
		4.000%	June 1, 2023	@	2,105,000.00	
		5.000%	June 1, 2023	@	29,380,000.00	
		4.125%	June 1, 2024	@	1,950,000.00	
		5.000%	June 1, 2024	@	31,090,000.00	
		5.000%	June 1, 2025	@	34,670,000.00	
		5.000%	June 1, 2026	@	36,405,000.00	
		5.000%	June 1, 2027	@	38,225,000.00	
		5.000%	June 1, 2028	@	40,140,000.00	
		4.500%	June 1, 2029	@	8,070,000.00	
		5.000%	June 1, 2029	@	34,075,000.00	$ 431,060,000.00
June 23, 2009	$ 225,410,000, Series DR, non-callable	3.000%	June 1, 2015	@	3,785,000.00	
		4.000%	June 1, 2015	@	7,460,000.00	
		5.000%	June 1, 2015	@	23,640,000.00	
		3.500%	June 1, 2016	@	2,275,000.00	
		4.000%	June 1, 2016	@	5,075,000.00	
		5.000%	June 1, 2016	@	21,130,000.00	
		3.000%	June 1, 2017	@	1,085,000.00	
		4.000%	June 1, 2017	@	1,435,000.00	
		5.000%	June 1, 2017	@	35,700,000.00	
		4.000%	June 1, 2018	@	3,435,000.00	
		5.000%	June 1, 2018	@	23,155,000.00	
		4.000%	June 1, 2019	@	3,805,000.00	

		4.250%	June 1, 2019	@	15,195,000.00		
		5.000%	June 1, 2019	@	23,060,000.00	$	170,235,000.00
November 5, 2009	$ 32,000,000, Series DS, QSCB tax credit bonds	0.000%	September 15, 2015	@	2,840,000.00		
		0.200%	September 15, 2016	@	2,840,000.00		
		0.400%	September 15, 2017	@	2,840,000.00		
		0.600%	September 15, 2018	@	2,880,000.00		
		0.800%	September 15, 2019	@	2,880,000.00		
		1.000%	September 15, 2020	@	2,920,000.00		
		1.200%	September 15, 2021	@	2,960,000.00		
		1.300%	September 15, 2022	@	2,960,000.00		
		1.350%	September 15, 2023	@	3,000,000.00		
		1.450%	September 15, 2024	@	3,040,000.00	$	29,160,000.00
November 24, 2009	$ 204,140,000, Series DT, non-callable	2.250%	November 1, 2014	@	3,000,000.00		
		4.000%	November 1, 2014	@	18,000,000.00		
		5.000%	November 1, 2014	@	9,255,000.00		
		2.500%	November 1, 2015	@	2,000,000.00		
		4.000%	November 1, 2015	@	11,500,000.00		
		5.000%	November 1, 2015	@	18,085,000.00		
		2.750%	November 1, 2016	@	600,000.00		
		3.500%	November 1, 2016	@	2,750,000.00		
		5.000%	November 1, 2016	@	29,745,000.00		
		3.000%	November 1, 2017	@	1,500,000.00		
		4.000%	November 1, 2017	@	4,250,000.00		
		5.000%	November 1, 2017	@	28,975,000.00		
		3.250%	November 1, 2018	@	6,090,000.00		
		4.000%	November 1, 2018	@	5,240,000.00		
		5.000%	November 1, 2018	@	25,060,000.00		
		3.500%	November 1, 2019	@	4,250,000.00		
		4.500%	November 1, 2019	@	18,250,000.00		
		5.000%	November 1, 2019	@	15,590,000.00	$	204,140,000.00
February 18, 2010	$ 500,000,000, Series DX, BABs, callable (Optional Make-Whole Redemptions)	3.000%	February 1, 2015	@	22,405,000.00		
		3.380%	February 1, 2016	@	23,080,000.00		
		3.730%	February 1, 2017	@	23,860,000.00		
		4.090%	February 1, 2018	@	24,745,000.00		
		4.290%	February 1, 2019	@	25,760,000.00		
		4.450%	February 1, 2020	@	26,865,000.00		
		4.600%	February 1, 2021	@	28,060,000.00		
		4.800%	February 1, 2022	@	29,350,000.00		
		4.950%	February 1, 2023	@	30,760,000.00		
		5.100%	February 1, 2024	@	32,280,000.00		
		5.230%	February 1, 2025	@	33,930,000.00		
		5.330%	February 1, 2026	@	35,705,000.00		
		5.430%	February 1, 2027	@	37,605,000.00		
		5.480%	February 1, 2028	@	39,650,000.00		
		5.510%	February 1, 2029	@	41,820,000.00		
		5.530%	February 1, 2030	@	44,125,000.00	$	500,000,000.00
February 18, 2010	$ 221,625,000, Series DY, non-callable	3.000%	February 1, 2015	@	7,000,000.00		
		4.000%	February 1, 2015	@	12,000,000.00		
		5.000%	February 1, 2015	@	14,100,000.00		
		3.000%	February 1, 2016	@	9,730,000.00		
		4.000%	February 1, 2016	@	12,000,000.00		
		5.000%	February 1, 2016	@	12,770,000.00		
		3.500%	February 1, 2017	@	3,715,000.00		
		4.000%	February 1, 2017	@	10,550,000.00		
		5.000%	February 1, 2017	@	21,645,000.00		
		4.000%	February 1, 2018	@	6,915,000.00		
		5.000%	February 1, 2018	@	30,625,000.00		
		4.000%	February 1, 2019	@	9,000,000.00		
		5.000%	February 1, 2019	@	30,350,000.00		
		4.000%	February 1, 2020	@	11,485,000.00		
		5.000%	February 1, 2020	@	29,740,000.00	$	221,625,000.00
December 7, 2011	$ 800,000,000, Series DZ, callable	5.000%	December 1, 2016	@	33,510,000.00		
		5.000%	December 1, 2017	@	35,230,000.00		
		5.000%	December 1, 2018	@	37,035,000.00		
		5.000%	December 1, 2019	@	38,935,000.00		
		5.000%	December 1, 2020	@	40,935,000.00		
		5.000%	December 1, 2021	@	43,030,000.00		
		5.000%	December 1, 2022	@	45,240,000.00		
		5.000%	December 1, 2023	@	47,560,000.00		
		5.000%	December 1, 2024	@	49,995,000.00		
		3.500%	December 1, 2025	@	4,400,000.00		
		5.000%	December 1, 2025	@	48,125,000.00		
		5.000%	December 1, 2026	@	55,185,000.00		
		3.750%	December 1, 2027	@	3,635,000.00		
		5.000%	December 1, 2027	@	54,360,000.00		

		5.000%	December 1, 2028	@	60,945,000.00		
		5.000%	December 1, 2029	@	64,070,000.00		
		4.000%	December 1, 2030	@	18,455,000.00		
		5.000%	December 1, 2030	@	48,805,000.00		
		4.000%	December 1, 2031	@	12,805,000.00		
		5.000%	December 1, 2031	@	57,745,000.00	$	800,000,000.00
December 7, 2011	$ 403,455,000, Series EA (refunding), callable	2.000%	December 1, 2016	@	2,525,000.00		
		4.000%	December 1, 2016	@	1,900,000.00		
		5.000%	December 1, 2016	@	38,080,000.00		
		2.250%	December 1, 2017	@	1,180,000.00		
		4.000%	December 1, 2017	@	10,100,000.00		
		5.000%	December 1, 2017	@	33,290,000.00		
		2.500%	December 1, 2018	@	555,000.00		
		4.000%	December 1, 2018	@	1,700,000.00		
		5.000%	December 1, 2018	@	44,515,000.00		
		3.000%	December 1, 2019	@	2,940,000.00		
		4.000%	December 1, 2019	@	13,440,000.00		
		5.000%	December 1, 2019	@	32,675,000.00		
		3.000%	December 1, 2020	@	2,745,000.00		
		4.000%	December 1, 2020	@	16,635,000.00		
		5.000%	December 1, 2020	@	31,980,000.00		
		3.000%	December 1, 2021	@	950,000.00		
		4.000%	December 1, 2021	@	20,165,000.00		
		5.000%	December 1, 2021	@	32,650,000.00		
		3.250%	December 1, 2022	@	1,875,000.00		
		4.000%	December 1, 2022	@	13,765,000.00		
		5.000%	December 1, 2022	@	40,680,000.00		
		3.000%	December 1, 2023	@	1,000,000.00		
		5.000%	December 1, 2023	@	58,110,000.00	$	403,455,000.00
December 7, 2011	$ 23,750,000, Series ED (refunding), non-callable	2.000%	December 1, 2015	@	2,350,000.00		
		3.000%	December 1, 2015	@	1,615,000.00		
		5.000%	December 1, 2015	@	19,785,000.00	$	23,750,000.00
December 4, 2012	$ 444,000,000, Series EE, callable	2.000%	November 1, 2017	@	5,210,000.00		
		3.000%	November 1, 2017	@	2,200,000.00		
		4.000%	November 1, 2017	@	11,705,000.00		
		3.000%	November 1, 2018	@	975,000.00		
		4.000%	November 1, 2018	@	500,000.00		
		5.000%	November 1, 2018	@	18,445,000.00		
		1.000%	November 1, 2019	@	1,000,000.00		
		3.000%	November 1, 2019	@	2,645,000.00		
		4.000%	November 1, 2019	@	150,000.00		
		5.000%	November 1, 2019	@	17,085,000.00		
		2.000%	November 1, 2020	@	2,620,000.00		
		4.000%	November 1, 2020	@	1,125,000.00		
		5.000%	November 1, 2020	@	18,110,000.00		
		3.000%	November 1, 2021	@	1,070,000.00		
		4.000%	November 1, 2021	@	650,000.00		
		5.000%	November 1, 2021	@	21,195,000.00		
		3.000%	November 1, 2022	@	1,200,000.00		
		4.000%	November 1, 2022	@	8,720,000.00		
		5.000%	November 1, 2022	@	14,100,000.00		
		4.000%	November 1, 2023	@	435,000.00		
		5.000%	November 1, 2023	@	24,755,000.00		
		4.000%	November 1, 2024	@	7,435,000.00		
		5.000%	November 1, 2024	@	19,010,000.00		
		5.000%	November 1, 2025	@	27,760,000.00		
		5.000%	November 1, 2026	@	29,185,000.00		
		5.000%	November 1, 2027	@	30,680,000.00		
		5.000%	November 1, 2028	@	32,255,000.00		
		5.000%	November 1, 2029	@	33,910,000.00		
		3.000%	November 1, 2030	@	35,285,000.00		
		4.000%	November 1, 2031	@	36,545,000.00		
		4.000%	November 1, 2032	@	38,040,000.00	$	444,000,000.00
December 4, 2012	$ 396,990,000, Series EF, (refunding), callable	5.000%	November 1, 2017	@	41,385,000.00		
		5.000%	November 1, 2018	@	43,505,000.00		
		5.000%	November 1, 2019	@	45,735,000.00		
		5.000%	November 1, 2020	@	48,080,000.00		
		5.000%	November 1, 2021	@	50,550,000.00		
		5.000%	November 1, 2022	@	53,140,000.00		
		5.000%	November 1, 2023	@	55,865,000.00		
		5.000%	November 1, 2024	@	58,730,000.00	$	396,990,000.00
December 4, 2012	$ 26,000,000, Series EG, (taxable), callable	1.000%	November 1, 2017	@	1,370,000.00		
		1.300%	November 1, 2018	@	1,385,000.00		
		1.600%	November 1, 2019	@	1,405,000.00		
		1.950%	November 1, 2020	@	1,430,000.00		
		2.150%	November 1, 2021	@	1,460,000.00		

		2.250%	November 1, 2022	@	1,490,000.00		
		2.450%	November 1, 2023	@	1,525,000.00		
		2.600%	November 1, 2024	@	1,565,000.00		
		2.750%	November 1, 2025	@	1,610,000.00		
		2.850%	November 1, 2026	@	1,655,000.00		
		3.375%	November 1, 2027	@	1,705,000.00		
		3.050%	November 1, 2028	@	1,760,000.00		
		3.150%	November 1, 2029	@	1,815,000.00		
		3.250%	November 1, 2030	@	1,875,000.00		
		3.350%	November 1, 2031	@	1,940,000.00		
		3.625%	November 1, 2032	@	2,010,000.00	$	852,340,000.00
November 21, 2013	$ 635,000,000, Series EH, callable	5.000%	August 1, 2018	@	27,150,000.00		
		4.000%	August 1, 2019	@	11,945,000.00		
		5.000%	August 1, 2019	@	16,535,000.00		
		5.000%	August 1, 2020	@	29,880,000.00		
		4.000%	August 1, 2021	@	575,000.00		
		5.000%	August 1, 2021	@	30,830,000.00		
		4.000%	August 1, 2022	@	32,845,000.00		
		4.000%	August 1, 2023	@	600,000.00		
		5.000%	August 1, 2023	@	33,760,000.00		
		5.000%	August 1, 2024	@	36,120,000.00		
		5.000%	August 1, 2025	@	37,970,000.00		
		4.000%	August 1, 2026	@	34,740,000.00		
		5.000%	August 1, 2026	@	5,000,000.00		
		4.000%	August 1, 2027	@	34,920,000.00		
		5.000%	August 1, 2027	@	6,500,000.00		
		5.000%	August 1, 2028	@	43,365,000.00		
		5.000%	August 1, 2029	@	45,590,000.00		
		5.000%	August 1, 2030	@	47,925,000.00		
		4.000%	August 1, 2031	@	7,260,000.00		
		5.000%	August 1, 2031	@	43,085,000.00		
		5.000%	August 1, 2032	@	52,890,000.00		
		4.000%	August 1, 2033	@	17,530,000.00		
		5.000%	August 1, 2033	@	37,985,000.00	$	635,000,000.00
November 21, 2013	$ 58,355,000, Series EJ (refunding), non-callable	3.000%	August 1, 2015	@	10,000,000.00		
		5.000%	August 1, 2015	@	48,355,000.00	$	58,355,000.00
November 21, 2013	$ 27,330,000, Series EK (refunding), non-callable	3.000%	August 1, 2016	@	10,000,000.00		
		5.000%	August 1, 2016	@	17,330,000.00	$	27,330,000.00
November 21, 2013	$ 50,860,000, Series EL, (refunding), non-callable	3.000%	August 1, 2017	@	6,460,000.00		
		1.000%	August 1, 2018	@	1,500,000.00		
		4.000%	August 1, 2018	@	5,170,000.00		
		1.500%	August 1, 2019	@	1,500,000.00		
		3.000%	August 1, 2019	@	275,000.00		
		5.000%	August 1, 2019	@	5,150,000.00		
		4.000%	August 1, 2020	@	7,210,000.00		
		3.000%	August 1, 2021	@	1,600,000.00		
		5.000%	August 1, 2021	@	5,930,000.00		
		4.000%	August 1, 2022	@	7,860,000.00		
		3.000%	August 1, 2023	@	1,600,000.00		
		5.000%	August 1, 2023	@	6,605,000.00	$	50,860,000.00
November 21, 2013	$ 25,000,000, Series EM, callable	1.950%	August 1, 2018	@	1,190,000.00		
		2.450%	August 1, 2019	@	1,215,000.00		
		2.750%	August 1, 2020	@	1,250,000.00		
		3.100%	August 1, 2021	@	1,285,000.00		
		3.350%	August 1, 2022	@	1,330,000.00		
		3.500%	August 1, 2023	@	1,375,000.00		
		3.750%	August 1, 2024	@	1,425,000.00		
		3.900%	August 1, 2025	@	1,480,000.00		
		4.050%	August 1, 2026	@	1,540,000.00		
		4.200%	August 1, 2027	@	1,605,000.00		
		4.350%	August 1, 2028	@	1,675,000.00		
		4.450%	August 1, 2029	@	1,750,000.00		
		4.650%	August 1, 2030	@	1,835,000.00		
		4.700%	August 1, 2031	@	1,920,000.00		
		4.750%	August 1, 2032	@	2,015,000.00		
		4.800%	August 1, 2033	@	2,110,000.00	$	25,000,000.00
November 21, 2103	$ 29,795,000 Series EN, QSCB-Direct Payment - callable	1.950%	August 1, 2018	@	1,865,000.00		
		2.450%	August 1, 2019	@	1,865,000.00		
		2.750%	August 1, 2020	@	1,865,000.00		
		3.100%	August 1, 2021	@	1,865,000.00		
		3.350%	August 1, 2022	@	1,865,000.00		
		3.500%	August 1, 2023	@	1,865,000.00		
		3.750%	August 1, 2024	@	1,865,000.00		
		3.900%	August 1, 2025	@	1,860,000.00		
		4.050%	August 1, 2026	@	1,860,000.00		
		4.200%	August 1, 2027	@	1,860,000.00		

4.350%	August 1, 2028	@	1,860,000.00		
4.450%	August 1, 2029	@	1,860,000.00		
4.650%	August 1, 2030	@	1,860,000.00		
4.700%	August 1, 2031	@	1,860,000.00		
4.750%	August 1, 2032	@	1,860,000.00		
4.800%	August 1, 2033	@	1,860,000.00	$	29,795,000.00

Total of all State of Hawaii general obligations bonds and general refunding bonds issued and outstanding	$ 5,650,120,000.00

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APPENDIX E

PENDING LITIGATION

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. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, 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 as provided by law, to better the conditions of native Hawaiians. Article XII, Sections 4, 5 and 6, Hawaii Constitution. In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of the funds derived by the State from the Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for the claims pending in the *OHA v. HHA* case discussed below, the Legislature, the state and federal courts, and the State's governors have acted to address the concerns raised. However, there can be no assurance that in the future there will not be asserted against the State new claims made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or that OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

OHA v. HHA. OHA filed suit on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) 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 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 *OHA, et al. v. State of Hawaii, et al.,* Civil No. 94-0205-01 (1st Cir.). The September 12, 2001 decision of the Hawaii Supreme Court (*OHA v. State of Hawaii,* 96 Haw. 399 (2001)) includes elements, with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA,* and the case remains pending.

The HFDC and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. As more fully described under "GENERAL ECONOMIC INFORMATION—State Housing Programs" in Appendix A, this corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

The State intends to defend vigorously against OHA's claim in *OHA v. HHA.*

Department of Hawaiian Home Lands

Individual Claims Cases. 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; 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.

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. 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.

On December 29, 1999, 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 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 (1st Cir.) ("*Kalima I*"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. The plaintiffs in these other actions 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. Following the dismissal without prejudice of the actions of four of the five claimants, only one lawsuit, *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (3rd Cir.) (*"Aguiar),* is pending and stayed.

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 Chapter 673, for the Panel's and 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 (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*. *Kalima I, Kalima II* and *Aguiar* are collectively referred to under this caption as the "Individual Claims Cases."

The plaintiffs in *Kalima I* filed a motion for partial summary judgment and asked the circuit court to declare that they were entitled to sue for breach of trust and recover damages under HRS Chapter 674. The State moved to dismiss the complaint and all claims in Kalima I for lack of subject matter jurisdiction. The circuit court granted the plaintiffs' motion and denied the State's motion. The State was permitted to take an interlocutory appeal. In an opinion issued June 30, 2006, the Hawaii Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, but did not have a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs in *Kalima I* have since filed first and second amended complaints 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) allegedly 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) allegedly defectively constructed homes or infrastructure, (6) allegedly 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 list subclass' claims separately and first, and after a six week bifurcated trial to determine liability only, the circuit judge for *Kalima II* ruled on November 3, 2009 that the State committed three breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches.

By orders entered on November 24, 2009 and June 6, 2011, respectively, the Waiting List Liability Subclass certified for purposes of determining liability was recertified for the purpose of establishing causation and the fact of damages (over the State's objection), and again as the Waiting List Damages Model Subclass for the purpose of devising a model for use on a class-wide basis to determine the amount of damages subclass members may be awarded. Notice to the putative members of the Waiting List Damages Model Subclass of the right to opt-out of the Waiting List Damages Model Subclass was mailed to all members of the Waiting List Liability Subclass on May 22, 2012, and published on the DHHL Website, and in the DHHL and OHA newsletters.

Multiple motions to establish a damages model were filed and heard between March 2011 and August 31, 2012. Orders were entered on January 24, 2012, and February 4 and 14, 2013. After a three day trial completed on October 3, 2013, the court ruled in a minute order that the annual fair market rental values used to calculate damages for claimants who applied for Oahu residential leases be based on four percent of the fee simple value of a 5,000 square foot lot in Maili, obtained from a "best fit" curve derived from actual fee simple Maili valuations from 1959 through July 8, 2013, that for damage calculations the rents adjust annually, and that there are no increases for the consumer price index or other present value adjustments. However, to date, no proceeding or procedure has been scheduled or devised to apply the damages model to determine whether and how much each claimant would be awarded in damages. The parties have participated in a private mediation on the matters in controversy in the case, pursuant to the circuit court's order approving the parties' Stipulation to Participate in Private Mediation etc., filed on September 13, 2013. To date, no settlement has been reached.

Nelson. In the First Amended Complaint filed on October 19, 2007 in *Nelson et al., v. Hawaiian Homes Commission, et al.*, Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), the plaintiffs allege all defendants 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, the *Nelson* plaintiffs asked 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. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Hawaii State Legislature, the State of Hawaii, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in Article XII, Section 1 of the Hawaii Constitution.

A final judgment in favor of the State was filed on September 23, 2009, and the plaintiffs appealed. On January 12, 2011, the Intermediate Court of Appeals concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, and vacated the judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, the DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer supported the political question doctrine defense.

The Hawaii Supreme Court, on May 9, 2012, concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots, (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Supreme Court thus held plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. The Hawaii Supreme Court did, however, uphold the Intermediate Court of Appeals as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for "administrative and operating expenses." Determination of this amount awaits further litigation in the circuit court on remand. Pursuant to the Judgment on Appeal issued on July 25, 2013, the case has been remanded to the circuit court for further proceedings.

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 plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (collectively, the "Defendants"). *See Marion Everson, et al. v. State of Hawaii, et al.*, Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii ("Civil No. 06-1-1141-06"). In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents.

Following a related proceeding that commenced in 2007, the Hawaii Supreme Court held that health benefits for retired state and county employees constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but that HRS Chapter 87A (particularly HRS Section 87A-23) did not require that retiree health benefits reasonably approximate those provided to active employees. *See Everson v. State*, 122 Hawai'i 401, P.3d 282 (2010). The Hawaii Supreme Court did not decide when retiree health benefits "accrued" so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al.*) claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by failing to provide them and other State and county retirees with: (a) health care benefits that are equivalent to those provided to State and county active employees; and/or (b) health care benefits that are equivalent to benefits provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age. The Second Amended Complaint also claims that State and county employees who retired prior to July 1, 2001, are contractually entitled to have their employers pay for all their health plan premiums despite the contribution caps in Sections 87A-33 through 87A-36, HRS. The Second Amended Complaint also claims that the EUTF was negligent in failing to properly interpret constitutional, statutory, and contractual requirements when it created retiree health plans. Plaintiffs seek declaratory and injunctive relief and monetary damages. The monetary damages sought are: (1) the amount that retirees and their dependents have had to personally pay for health care because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; (2) damages for health care that retirees and their dependents have foregone because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; and (3) damages for pain and suffering. On August 29, 2013, the First Circuit Court entered an Order Granting Plaintiffs' Motion for Class Action Certification. The class certified is all employees (and their dependent-beneficiaries) who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, before July 1, 2003, and who have accrued or will accrue a right to post-retirement health benefits as a retiree or dependent-beneficiary of such a retiree. This includes: (a) those who have not yet received any post-retirement health benefits from Defendants as a retiree or dependent-beneficiary of such a retiree; and (b) those who have received any post-retirement benefits from Defendants since July 1, 2003 as a retiree or dependent-beneficiary of such a retiree. For purposes of damages only, if any, the class shall also include the estates and heirs of any deceased retiree or deceased dependent-beneficiary of a retiree who is or was a member of the class. On December 10, 2012, Plaintiff filed Plaintiffs' Motion for Partial Summary Judgment seeking judgment in their favor and against Defendants on the liability issues in the lawsuit, i.e., that Plaintiffs be granted their requested declaratory and injunctive relief, and that Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, State Defendants filed State Defendants' Motion for Partial Summary Judgment seeking judgment in their favor and against Plaintiffs on all of Plaintiffs' claims that are based on the allegations that: (1) State Defendants have violated the constitutional, contractual, and statutory rights of Plaintiffs by not providing health care benefits for retirees and their dependents that are equivalent to those provided to active employees and their dependents; (2) State Defendants have violated the constitutional and contractual rights of Plaintiffs by not providing health care benefits to retirees and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and (3) State Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were heard by the First Circuit Court on October 30, 2013. On October 16, 2014, the court issued an order denying Plaintiffs' Motion for Partial Summary Judgment and granting State Defendants' Motion for Partial Summary Judgment. The State is evaluating any remaining claims.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated November 25, 2014

$575,000,000
General Obligation Bonds
of 2014, Series EO

$209,015,000
General Obligation Refunding
Bonds of 2014, Series EP

$25,000,000
Taxable General Obligation Bonds of
2014, Series EQ

$5,880,000
Taxable General Obligation
Refunding Bonds of 2014, Series ER

$193,880,000
Taxable General Obligation
Refunding Bonds of 2014, Series ES

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 $575,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2014, Series EO, its $209,015,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2014, Series EP, its $25,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2014, Series EQ, its $5,880,000 aggregate principal amount of State of Hawaii Taxable General Obligation Refunding Bonds of 2014, Series ER and its $193,880,000 aggregate principal amount of State of Hawaii Taxable General Obligation Refunding Bonds of 2014, Series ES (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)(i).

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.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

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

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

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The 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, 2014, provide to the MSRB an Annual report which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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 Section 5(b).

(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).

(c) If the State is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the State shall provide to the MSRB a notice in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall (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 to the MSRB.

Section 4. Contents of Annual Reports. The State's Annual Report shall contain or include by reference updates of the following information in substantially the form included in Appendix B to the final Official Statement (the "Official Statement") dated November 13, 2014, relating to the Bonds:

(1) Summary of Total Indebtedness of the State of Hawaii;

(2) Revenue Projections; Certain Tax Collections – General Fund Tax Revenues; and

(3) Revenue Projections; Certain Tax Collections – Distributions.

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, if available, without the State having to undertake to prepare unaudited financial statements exclusively for the purpose of satisfying this Section 4, in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. The State regularly updates Appendix B, which may involve adding additional financial and operating data, displaying data in a different format, or eliminating data that are no longer material.

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 (i) available to the public on the MSRB's website or (ii) filed with the Securities and Exchange Commission. The State shall clearly identify each such other document so included by reference.

Section 5. Reporting of Listed 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:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) modifications to rights of Bondholders, if material;

(4) bond calls, if material, and tender offers;

(5) defeasances;

(6) rating changes;

(7) adverse tax opinions, material notices of determinations with respect to the tax status of the Series EO Bonds or the Series EP Bonds or other material 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 credit or liquidity providers or their failure to perform;

(11) release, substitution or sale of property securing repayment of the Bonds, if material;

(12) bankruptcy, insolvency, receivership or similar event of the State;

(Note to clause 12: For the purposes of the event identified in clause 12 above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.)

(13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The State shall in a timely manner, not in excess of ten (10) business days after the occurrence of a Listed Event, (i) where relevant pursuant to subsection (a) above, determine if such event would be material under applicable federal securities laws, and (ii) in all events, file notice of such occurrence with the MSRB.

Section 6. Filings with MSRB. All Annual Reports, notices of Listed Events and other notices and information provided to the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format as prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non-textual elements), accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate with respect to each Bond upon the legal defeasance or payment in full of such Bond. If the obligations of the State under this Disclosure Certificate with respect to all Bonds terminate 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 8. 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 9. 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 10. 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 11. 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 12. **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 13. **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____________________________
KALBERT K. YOUNG
Director of Finance
State of Hawaii

EXHIBIT A

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

Name of Issuer:	State of Hawaii
Names of Bond Issues:	State of Hawaii General Obligation Bonds of 2014, Series EO State of Hawaii General Obligation Refunding Bonds of 2014, Series EP State of Hawaii Taxable General Obligation Bonds of 2014, Series EQ State of Hawaii Taxable General Obligation Refunding Bonds of 2014, Series ER State of Hawaii Taxable General Obligation Refunding Bonds of 2014, Series ES
Date of Issuance:	November 25, 2014

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 November 25, 2014. [The State anticipates that the Annual Report will be filed by __________.]

Dated:

STATE OF HAWAII

By:________________________________

Name:______________________________

Title:______________________________

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

November 25, 2014

State of Hawaii
Honolulu, Hawaii

State of Hawaii
General Obligation Bonds of 2014, Series EO,
General Obligation Refunding Bonds of 2014, Series EP,
Taxable General Obligation Bonds of 2014, Series EQ
Taxable General Obligation Refunding Bonds of 2014, Series ER, and
Taxable General Obligation Refunding Bonds of 2014, Series ES
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the State of Hawaii (the "State") in connection with the issuance of $575,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2014, Series EO (the "Series EO Bonds"), $209,015,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2014, Series EP (the "Series EP Bonds"), $25,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2014, Series EQ (the "Series EQ Bonds"), $5,880,000 aggregate principal amount of State of Hawaii Taxable General Obligation Refunding Bonds of 2014, Series ER (the "Series ER Bonds") and $193,880,000 aggregate principal amount of State of Hawaii Taxable General Obligation Refunding Bonds of 2014, Series ES (the "Series ES Bonds" and, together with the Series EO Bonds, the Series EP Bonds, the Series EQ Bonds and the Series ER Bonds, the "Bonds"), pursuant to a Certificate of the Director of Finance of the State dated as of November 13, 2014 (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.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the 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 assure that future actions, omissions or events will not cause interest on the Series EO Bonds or the Series EP Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute valid and binding limited obligations of the State.

2. The Certificate has been duly executed and delivered by the Director of Finance and constitutes the valid and binding 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 EO Bonds and the Series EP Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Series EO Bonds and the Series EP Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We further observe that interest on the Series EQ Bonds, the Series ER Bonds and the Series ES Bonds is not excludable from gross income for federal income tax purposes. The Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX H

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 series of the Bonds bearing interest at the same rate, each 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 ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 Direct 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 Direct and Indirect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity of an issue are being redeemed, DTC's practice is to be determined by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. 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 and redemption price of and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price 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 to DTC.

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 State or the Underwriters.

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.

APPENDIX I

BONDS TO BE REFUNDED

The final payment dates of the Refunded Bonds will be their respective stated maturity dates or, if earlier, designated redemption dates, as shown in the table below.

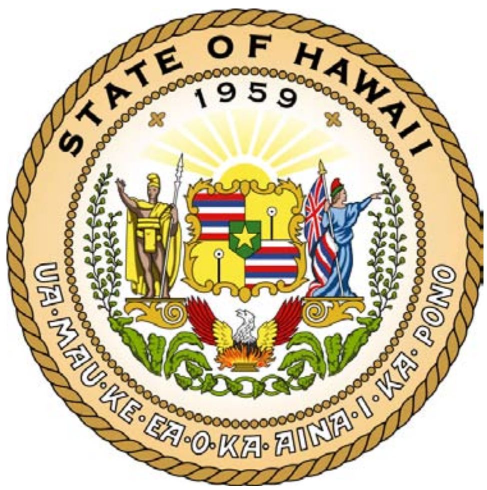
Schedule of Bonds to be Refunded

Refunded Bonds	Principal Amount ($)	Stated Maturity	Interest Rate (%)	Redemption Date	Redemption Price (%)	CUSIP*
General Obligation Bonds of 2005, Series DF	975,000	7/1/2019	5.000	7/1/2015	100	419780Q79
	3,405,000	7/1/2020	5.000	7/1/2015	100	419780Q87
	185,000	7/1/2021	3.875	7/1/2015	100	419780Q95
	5,750,000	7/1/2021	5.000	7/1/2015	100	419780R29
	270,000	7/1/2024	4.000	7/1/2015	100	419780R60
	2,900,000	7/1/2025	4.000	7/1/2015	100	419780R86
	16,145,000	7/1/2025	5.000	7/1/2015	100	419780R94
	29,630,000					
General Obligation Bonds of 2005, Series DG	92,510,000	7/1/2016	5.000	7/1/2015	100	419780S93
	97,255,000	7/1/2017	5.000	7/1/2015	100	419780T27
	189,765,000					
General Obligation Bonds of 2006, Series DI	105,000	3/1/2021	4.200	3/1/2016	100	4197804J7
	135,000	3/1/2022	4.250	3/1/2016	100	4197804L2
	6,940,000	3/1/2025	5.000	3/1/2016	100	4197804R9
	460,000	3/1/2026	4.300	3/1/2016	100	4197804S7
	12,710,000	3/1/2026	5.000	3/1/2016	100	4197804T5
	20,350,000					
General Obligation Bonds of 2007, Series DJ	5,910,000	4/1/2020	5.000	4/1/2017	100	419791ZZ4
	21,460,000	4/1/2021	5.000	4/1/2017	100	4197806B2
	20,210,000	4/1/2022	5.000	4/1/2017	100	4197806C0
	11,930,000	4/1/2023	5.000	4/1/2017	100	4197806D8
	4,000,000	4/1/2024	5.000	4/1/2017	100	4197806E6
	23,040,000	4/1/2025	5.000	4/1/2017	100	4197806F3
	29,425,000	4/1/2027	5.000	4/1/2017	100	4197806H9
	115,975,000					

Refunded Bonds	Principal Amount ($)	Stated Maturity	Interest Rate (%)	Redemption Date	Redemption Price (%)	CUSIP*
General Obligation Bonds of 2008, Series DK	5,980,000	5/1/2020	4.100	5/1/2018	100	419787AP1
	10,905,000	5/1/2020	5.000	5/1/2018	100	419787AQ9
	15,510,000	5/1/2023	5.000	5/1/2018	100	419787AW6
	1,560,000	5/1/2024	4.375	5/1/2018	100	419787AX4
	22,475,000	5/1/2024	5.000	5/1/2018	100	419787AY2
	3,910,000	5/1/2027	5.000	5/1/2018	100	419787BE5
	60,340,000					
General Obligation Bonds of 2008, Series DN	800,000	8/1/2023	5.000	8/1/2018	100	419787CZ7
	800,000					

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

STATE OF HAWAII • General Obligation Bonds of 2014, Series EO, General Obligation Refunding Bonds of 2014, Series EP,
Taxable General Obligation Bonds of 2014, Series EQ and Taxable General Obligation Refunding Bonds of 2014, Series ER and Series ES



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