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

In the opinion of Kutak Rock 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 EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL 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 EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL 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 EM Bonds and the Series EN Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" in this Official Statement.

STATE OF HAWAII

$635,000,000
General Obligation Bonds of 2013, Series EH

$34,515,000
General Obligation Refunding Bonds of 2013, Series EI

$58,355,000
General Obligation Refunding Bonds of 2013, Series EJ

$27,330,000
General Obligation Refunding Bonds of 2013, Series EK

$50,860,000
General Obligation Refunding Bonds of 2013, Series EL

$25,000,000
Taxable General Obligation Bonds of 2013, Series EM

$29,795,000
Taxable General Obligation Bonds of 2013, Series EN
(Qualified School Construction Bonds–Direct Payment)
(Base CUSIP: 419791)

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

The General Obligation Bonds of 2013, Series EH, the General Obligation Refunding Bonds of 2013, Series EI, the General Obligation Refunding Bonds of 2013, Series EJ, the General Obligation Refunding Bonds of 2013, Series EK, the General Obligation Refunding Bonds of 2013, Series EL, the Taxable General Obligation Bonds of 2013, Series EM, and the Taxable General Obligation Bonds of 2013, Series EN (Qualified School Construction Bonds–Direct Payment) (individually, the "Series EH Bonds," the "Series EI Bonds," the "Series EJ Bonds", the "Series EK Bonds," the "Series EL Bonds", the "Series EM Bonds and the "Series EN Bonds," and 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 as shown on the inside cover. The Series EH Bonds, the Series EM Bonds and the Series EN Bonds maturing on or after August 1, 2024 are subject to optional redemption prior to their stated maturities as and to the extent described herein. The Series EM Bonds and the Series EN Bonds maturing on or before August 1, 2023 are subject to optional make-whole redemption prior to their stated maturities as and to the extent described herein. The Series EN Bonds are subject at any time to extraordinary optional make-whole redemption and to extraordinary mandatory redemption prior to their stated maturities as and to the extent described herein. The Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL Bonds are not subject to optional redemption.

The Series EH Bonds, the Series EM Bonds, and the Series EN 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, senior housing facilities, public libraries and parks and for other public purposes. The Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL Bonds (collectively, 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.

The State intends to irrevocably designate the Series EN Bonds as "Qualified School Construction Bonds" as defined under Section 54F of the Internal Revenue Code of 1986, as amended (the "Code") and as "Specified Tax Credit Bonds" under Section 6431 of the Code in order to receive a direct payment from the United States Treasury in an amount which is the lesser of the interest paid on each Series EN Bond or the tax credit rate as determined by the United States Treasury at the time of pricing. THE HOLDERS OF THE SERIES EN BONDS ARE NOT ENTITLED TO A FEDERAL OR STATE TAX CREDIT AS A RESULT OF THEIR OWNERSHIP THEREOF. See "THE BONDS—Designation of Series EN Bonds as 'Qualified School Construction Bonds'" herein.

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 Kutak Rock 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 21, 2013.

BofA Merrill Lynch **Morgan Stanley** **RBC Capital Markets**
Citigroup **Goldman, Sachs & Co.** **Jefferies** **J.P. Morgan**
Piper Jaffray & Co. **Stifel** **Wells Fargo Securities**

Dated: November 5, 2013

DRAFTv3

STATE OF HAWAII

$635,000,000 GENERAL OBLIGATION BONDS OF 2013, SERIES EH

Dated: Date of Delivery
Due: August 1, as shown below
Initial Interest Payment Date: August 1, 2014

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2018	$27,150,000	5.00%	1.10%	Y36
2019	11,945,000	4.00	1.60	Y44
2019	16,535,000	5.00	1.60	2D9
2020	29,880,000	5.00	1.99	Y51
2021	575,000	4.00	2.33	Y69
2021	30,830,000	5.00	2.33	2E7
2022	32,845,000	4.00	2.53	Y77
2023	600,000	4.00	2.76	Y85
2023	33,760,000	5.00	2.76	2F4
2024	36,120,000	5.00	2.96**	Y93
2025	37,970,000	5.00	3.10**	Z27
2026	34,740,000	4.00	3.47**	Z35
2026	5,000,000	5.00	3.24**	2G2
2027	34,920,000	4.00	3.70**	Z43
2027	6,500,000	5.00	3.39**	2H0
2028	43,365,000	5.00	3.54**	Z50
2029	45,590,000	5.00	3.67**	Z68
2030	47,925,000	5.00	3.79**	Z76
2031	7,260,000	4.00	4.02	Z84
2031	43,085,000	5.00	3.88**	2B3
2032	52,890,000	5.00	3.95**	Z92
2033	17,530,000	4.00	4.16	2A5
2033	37,985,000	5.00	4.00**	2C1

$34,515,000 GENERAL OBLIGATION REFUNDING BONDS OF 2013, SERIES EI

Dated: Date of Delivery
Due: August 1, as shown below
Initial Interest Payment Date: February 1, 2014

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2014	$34,515,000	5.00%	0.16%	2J6

** Priced at the stated yield to the August 1, 2023 redemption date at a price of 100%. See "THE BONDS – Optional Redemption of Series EH Bonds, Series EM Bonds and Series EN Bonds."

$58,355,000 GENERAL OBLIGATION REFUNDING BONDS OF 2013, SERIES EJ
Dated: Date of Delivery
Due: August 1, as shown below
Initial Interest Payment Date: February 1, 2014

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2015	$10,000,000	3.00%	0.36%	2K3
2015	48,355,000	5.00	0.36	2L1

$27,330,000 GENERAL OBLIGATION REFUNDING BONDS OF 2013, SERIES EK
Dated: Date of Delivery
Due: August 1, as shown below
Initial Interest Payment Date: February 1, 2014

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2016	$10,000,000	3.00%	0.57%	2M9
2016	17,330,000	5.00	0.57	2N7

$50,860,000 GENERAL OBLIGATION REFUNDING BONDS OF 2013, SERIES EL
Dated: Date of Delivery
Due: August 1, as shown below
Initial Interest Payment Date: February 1, 2014

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2017	$6,460,000	3.00%	0.85%	2P2
2018	1,500,000	1.00	1.10	2Z0
2018	5,170,000	4.00	1.10	2Q0
2019	1,500,000	1.50	1.60	3A4
2019	275,000	3.00	1.60	2R8
2019	5,150,000	5.00	1.60	2W7
2020	7,210,000	4.00	1.99	2S6
2021	1,600,000	3.00	2.33	2T4
2021	5,930,000	5.00	2.33	2X5
2022	7,860,000	4.00	2.53	2U1
2023	1,600,000	3.00	2.76	2V9
2023	6,605,000	5.00	2.76	2Y3

$25,000,000 TAXABLE GENERAL OBLIGATION BONDS OF 2013, SERIES EM
Dated: Date of Delivery
Due: August 1, as shown below
Initial Interest Payment Date: August 1, 2014

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2018	$1,190,000	1.95%	1.95%	3B2
2019	1,215,000	2.45	2.45	3C0
2020	1,250,000	2.75	2.75	3D8
2021	1,285,000	3.10	3.10	3E6
2022	1,330,000	3.35	3.35	3F3
2023	1,375,000	3.50	3.50	3G1
2024	1,425,000	3.75	3.75	3H9
2025	1,480,000	3.90	3.90	3J5
2026	1,540,000	4.05	4.05	3K2
2027	1,605,000	4.20	4.20	3L0
2028	1,675,000	4.35	4.35	3M8
2029	1,750,000	4.45	4.45	3N6
2030	1,835,000	4.65	4.65	3P1
2031	1,920,000	4.70	4.70	3Q9
2032	2,015,000	4.75	4.75	3R7
2033	2,110,000	4.80	4.80	3S5

$29,795,000 TAXABLE GENERAL OBLIGATION BONDS OF 2013, SERIES EN
(QUALIFIED SCHOOL CONSTRUCTION BONDS—DIRECT PAYMENT)
Dated: Date of Delivery
Due: August 1, as shown below
Initial Interest Payment Date: August 1, 2014

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2018	$1,865,000	1.95%	1.95%	3T3
2019	1,865,000	2.45	2.45	3U0
2020	1,865,000	2.75	2.75	3V8
2021	1,865,000	3.10	3.10	3W6
2022	1,865,000	3.35	3.35	3X4
2023	1,865,000	3.50	3.50	3Y2
2024	1,865,000	3.75	3.75	3Z9
2025	1,860,000	3.90	3.90	4A3
2026	1,860,000	4.05	4.05	4B1
2027	1,860,000	4.20	4.20	4C9
2028	1,860,000	4.35	4.35	4D7
2029	1,860,000	4.45	4.45	4E5
2030	1,860,000	4.65	4.65	4F2
2031	1,860,000	4.70	4.70	4G0
2032	1,860,000	4.75	4.75	4H8
2033	1,860,000	4.80	4.80	4J4

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

Kutak Rock LLP

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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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State of Hawaii

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$27,330,000 **General Obligation Refunding Bonds of 2013, Series EK**	**$50,860,000** **General Obligation Refunding Bonds of 2013, Series EL**	**$25,000,000** **Taxable General Obligation Bonds of 2013, Series EM**

$29,795,000
Taxable General Obligation Bonds of 2013, Series EN
(Qualified School Construction Bonds–Direct Payment)

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 $635,000,000 aggregate principal amount of General Obligation Bonds of 2013, Series EH (the "Series EH Bonds"), its $34,515,000 aggregate principal amount of General Obligation Refunding Bonds of 2013, Series EI (the "Series EI Bonds"), its $58,355,000 aggregate principal amount of General Obligation Refunding Bonds of 2013, Series EJ (the "Series EJ Bonds"), its $27,330,000 aggregate principal amount of General Obligation Refunding Bonds of 2013, Series EK (the "Series EK Bonds"), its $50,860,000 aggregate principal amount of General Obligation Refunding Bonds of 2013, Series EL (the "Series EL Bonds"), its $25,000,000 aggregate principal amount of Taxable General Obligation Bonds of 2013, Series EM (the "Series EM Bonds") and its $29,795,000 aggregate principal amount of Taxable General Obligation Bonds of 2013, Series EN (Qualified School Construction Bonds–Direct Payment) (the "Series EN Bonds," and together with the Series EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds, the Series EL Bonds and the Series EM Bonds, the "Bonds"), in connection with the sale of the Bonds by the State of Hawaii. In addition, this Official Statement refers to the Series EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL Bonds collectively as the "Tax Exempt Bonds," and to the Series EM Bonds and the Series EN Bonds collectively as the "Taxable 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 EH Bonds and the Series EM 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, senior housing facilities and parks and for certain other public purposes, including payment of up to $30 million during fiscal year 2014 in connection with the Hawaiian Home Lands Settlement, as authorized by Act 134, SLH 2013; (ii) in the case of the Series EN Bonds, to finance, or to reimburse the State for, certain expenditures for which appropriations have been made in certain Acts of the State Legislature and which the Legislature may from time to time approve, for the costs of construction, rehabilitation or repair of public school facilities for use by the State, the equipping of any such facility so constructed, rehabilitated or repaired, or the acquisition of land on which such a facility is to be constructed; (iii) in the case of the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL Bonds (collectively, 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 (iv) to pay costs of issuance of the Bonds. See "DEBT STRUCTURE—Outstanding Indebtedness and Debt Limit" in Part I of Appendix A.

PLAN OF REFUNDING

Upon delivery of the 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") and as shown in 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, in the cases of the Series EH Bonds, the Series EM Bonds and the Series EN Bonds, August 1, 2014, and, in the cases of the Refunding Bonds, February 1, 2014 (each an "interest payment date"), to each holder in whose name Bonds are registered upon the Bond Register maintained by the Registrar and Paying Agent identified below, as of the close of business on the 15th day (whether or not a business day) next preceding each interest payment date at such holder's address as it appears on the Bond Register. 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 the Registrar and Paying Agent for the Bonds, U.S. Bank National Association, Seattle, Washington, as initial Registrar and Paying Agent, 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.

Designation of the Series EN Bonds as "Qualified School Construction Bonds"

In March 2010, as part of the Hiring Incentives to Restore Employment Act, Congress added subsection (f) to Section 6431 of the Code to extend certain additional tax advantages to "Qualified School Construction Bonds" provided such bonds meet certain requirements of the Code and the related Treasury Regulations and the State intends to make an irrevocable election to have such special rule apply by designating them as "Specified Tax Credit Bonds." Under Section 6431(f) of the Code, as amended, an issuer of a Qualified School Construction Bond may elect to receive cash subsidy payments from the United States Treasury (the "Federal Direct Payments") in lieu of a tax credit being available to the holder thereof by electing to issue such bonds as Specified Tax Credit Bonds. The amount of a Federal Direct Payment is set in Section 6431 of the Code at the lesser of (i) 100% of the corresponding interest payable on the related Qualified School Construction Bond on the applicable interest payment date and (ii) the amount of interest which would have been payable on the related Qualified School Construction Bond on such interest payment date if such rate were determined at the applicable credit rate set by the United States Treasury and in effect on the first day on which there is a binding written contract for the sale of such bond. The cash payment does not constitute a full faith and credit guarantee of the United States government, but is required to be paid by the United States Treasury under the Code. The Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012 enacted certain automatic reductions to federal expenditures (commonly referred to as "sequester") which became effective as of March 1, 2013. **Such Federal Direct Payments, however, are not pledged to holders of the Series EN Bonds.**

The State intends to designate the Series EN Bonds as Qualified School Construction Bonds and make an irrevocable election that Section 6431(f) of the Code shall apply to the Series EN Bonds so that the State will receive Federal Direct Payments. As a result of this election, interest on the Series EN Bonds will be included in gross income of the holders thereof for federal income tax purposes and the holders of the Series EN Bonds will not be entitled to any tax credits as a result of either ownership of the Series EN Bonds or receipt of any interest payments on the Series EN Bonds.

Optional Redemption of Series EH Bonds, Series EM Bonds and Series EN Bonds

The Series EH Bonds, the Series EM Bonds and the Series EN Bonds maturing on or after August 1, 2024 will be subject to redemption prior to their stated maturities at the option of the State at any time on and after August 1, 2023, in whole or in part, in any order of maturity selected by the State and by lot within a maturity, at a price equal to the principal amount thereof plus accrued interest to the redemption date.

The Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL Bonds will not be subject to redemption at the option of the State or otherwise.

Optional Make–Whole Redemption of Series EM Bonds and Series EN Bonds

The Taxable Bonds maturing on or before August 1, 2023 will be subject to redemption prior to their respective maturities, at the option of the State, in whole or in part at any time, from any maturities selected by the State and on a pro rata basis within a maturity as described below in "Pro Rata Redemption of Series EM Bonds and Series EN Bonds," at a redemption price computed as described below (the "Make-Whole Premium").

The “Make-Whole Premium” is the amount calculated by the Calculation Agent (defined in “Certain Definitions”) equal to the positive difference, if any, between:

(a) The sum of the present values, calculated as of the date fixed for redemption of:

(i) Each interest payment that, but for the redemption, would have been payable on the Taxable Bond or portion thereof being redeemed on each regularly scheduled interest payment date occurring after the date fixed for redemption through the maturity date of such Taxable Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided, that if the date fixed for redemption is not a regularly scheduled interest payment date with respect to such Taxable Bond, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued on such Taxable Bond to the date fixed for redemption; plus

(ii) The principal amount that, but for such redemption, would have been payable on the maturity date of the Taxable Bond or portion thereof being redeemed; minus

(b) The principal amount of the Taxable Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (a) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Comparable Treasury Yield (defined in “Certain Definitions”), plus 0.25%.

Extraordinary Optional Make-Whole Redemption of Series EN Bonds

The Series EN Bonds will be subject to extraordinary redemption prior to their respective maturities, at the option of the State, upon the occurrence of an Extraordinary Event (defined below), in whole or in part at any time from any maturities selected by the State and on a pro rata basis within a maturity as described in “Pro Rata Redemption of Series EM Bonds and Series EN Bonds,” at a redemption price computed as described below (the “Extraordinary Make-Whole Premium”).

For purposes of the preceding paragraph, “Extraordinary Event” means: (1) a material adverse change has occurred to Sections 54A, 54F or 6431 of the Code, (2) there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections, or (3) any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the State, that there has been a failure of the State to satisfy the requirements of the State to qualify to receive federal direct payments from the United States Treasury; and as a result thereof, the cash subsidy payment from the United States Treasury to the State expected to be received with respect to the Series EN Bonds is eliminated or reduced by 10% or more, as reasonably determined by the Director of Finance, which determination shall be conclusive.

The “Extraordinary Make-Whole Premium” is the amount calculated by the Calculation Agent equal to the positive difference, if any, between:

(i) The sum of the present values, calculated as of the date fixed for redemption of:

(A) Each interest payment that, but for the redemption, would have been payable on the Series EN Bond or portion thereof being redeemed on each regularly scheduled interest payment date occurring after the date fixed for redemption through the maturity date of such Series EN Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided, that if the date fixed for redemption is not a regularly scheduled interest payment date with respect to such Series EN Bond, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued on such Series EN Bond to the date fixed for redemption; plus

(B) The principal amount that, but for such redemption, would have been payable on the maturity date of the Series EN Bond or portion thereof being redeemed; minus

(ii) The principal amount of the Series EN Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (i) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Comparable Treasury Yield (defined in "Certain Definitions"), plus 1.00%.

Certain Definitions

For purposes of calculating the Make-Whole Premium with respect to the optional make-whole redemption of the Taxable Bonds and the Extraordinary Make-Whole Premium with respect to the extraordinary optional make-whole redemption of the Series EN Bonds:

"Calculation Agent" means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities in the United States and designated by the State (which may be one of the institutions that served as underwriters for the Taxable Bonds).

"Comparable Treasury Issue" means the United State Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Taxable Bond being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Taxable Bond being redeemed.

"Comparable Treasury Price" means, with respect to any date on which a Taxable Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations or (b) if the Calculation Agent is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time on the third business day preceding the date fixed for redemption.

"Comparable Treasury Yield" means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated "H.15(519) Selected Interest Rates" under the heading "Treasury Constant Maturities," or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Taxable Bond being redeemed. The Comparable Treasury Yield will be determined as of the third business day immediately preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Taxable Bond being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Taxable Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Taxable Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

"Reference Treasury Dealer" means a primary dealer of United States Government securities in the United States (which may be one of the institutions that served as underwriters for the Taxable Bonds) appointed by the State and reasonably acceptable to the Calculation Agent.

Extraordinary Mandatory Redemption of Series EN Bonds

The Series EN Bonds will be subject to extraordinary mandatory redemption, in whole or in part, on a date designated by the State within 90 days after the end of the three-year period commencing on the date of delivery of the Series EN Bonds (the "Expenditure Period"), at a redemption price equal to the principal amount of the Series EN Bonds to be redeemed together with accrued interest, if any, to the redemption date, which principal amount shall be computed by reference to the unexpended proceeds of the Series EN Bonds on deposit as of the end of the Expenditure Period or such amount as may be required to preserve the status of the Series EN Bonds as Qualified School Construction Bonds.

Pro Rata Redemption of Series EM Bonds and Series EN Bonds

If a portion of a maturity of either series of the Taxable Bonds is being redeemed in part, the Taxable Bond to be redeemed will be selected on a pro rata basis to each Holder of the Taxable Bonds in whose name such Taxable Bonds are registered on the record date immediately preceding the redemption date. "Pro rata" for a Holder is determined, in part, by multiplying the principal amount of the Taxable Bonds of a maturity to be redeemed in part on the applicable redemption date by a fraction, the numerator of which is equal to the principal amount of the Taxable Bonds of that maturity owned by the Holder, and the denominator of which is equal to the total amount of the Taxable Bonds of that maturity then Outstanding immediately prior to such redemption date, and then rounding the product down to the next lower integral multiple of $5,000, provided that the portion of any Taxable Bond to be redeemed shall be in $5,000 denominations and all Taxable Bonds to remain Outstanding following any redemption shall be in $5,000 denominations. Adjustments to the foregoing pro rata redemption may be made in the amount of $5,000 for any Holder so that the aggregate amount of Taxable Bonds of a maturity being redeemed in part owned by all Holders is equal to the aggregate amount of Taxable Bonds of that maturity to be redeemed.

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.

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.

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.

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, 2012. 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 in this and the following paragraphs 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*"); (iii) the Employees' Retirement System ("ERS") (as to the constitutionality of certain 1999 legislation ("Act 100") relating to employer contributions into the ERS); and (iv) 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 case relating to the ERS referred to in clause (iii) of the second paragraph under this caption has been remanded by the Hawaii Supreme Court to the circuit court for disposition in accordance with the Supreme Court's direction, as described in APPENDIX E—"PENDING LITIGATION—Employees' Retirement System." A description of the ERS and Act 100 is provided under "GENERAL INFORMATION ABOUT THE STATE OF HAWAII—EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM—State Employees' Retirement System" in Appendix A.

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 (iv) 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

The Tax Exempt Bonds

General Matters. In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Tax Exempt Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the State with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Tax Exempt Bonds. Failure to comply with such covenants could cause interest on the Tax Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Tax Exempt Bonds. The State has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Tax Exempt Bonds.

Notwithstanding Bond Counsel's opinion that interest on the Tax Exempt Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

The accrual or receipt of interest on the Tax Exempt Bonds may otherwise affect the federal income tax liability of the owners of the Tax Exempt Bonds. The extent of these other tax consequences will depend on such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Tax Exempt Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States of America), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Tax Exempt Bonds.

Bond Counsel is also of the opinion that, under existing State statutes, interest on the Tax Exempt Bonds is exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer and estate taxes and certain franchise taxes. Bond Counsel has expressed no opinion regarding other tax consequences arising with respect to the Tax Exempt Bonds under the laws of the State or any other state or jurisdiction.

A copy of the proposed form of opinion of Bond Counsel with respect to the Bonds, including the Tax Exempt Bonds, is attached as Appendix G to this Official Statement.

Original Issue Discount. The Tax Exempt Bonds that have an original yield above their respective interest rates, as shown on the inside cover of this Official Statement (collectively, the "Discount Tax Exempt Bonds"), are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Tax Exempt Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described above.

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

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

Owners of Discount Tax Exempt Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Tax-Exempt Bond. Subsequent purchasers of Discount Tax Exempt Bonds that purchase such bonds for a price that is higher or lower than the “adjusted issue price” of the bonds at the time of purchase should consult their tax advisors as to the effect on the accrual of original issue discount.

Original Issue Premium. The Tax Exempt Bonds that have an original yield below their respective interest rates, as shown on the inside cover of this Official Statement (collectively, the “Premium Tax Exempt Bonds”), are being sold at a premium. An amount equal to the excess of the issue price of a Premium Tax Exempt Bond over its stated redemption price at maturity constitutes premium on such Premium Tax Exempt Bond. A purchaser of a Premium Tax Exempt Bond must amortize any premium over such Premium Tax Exempt Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Premium Tax Exempt Bonds callable prior to their maturity, generally by amortizing the premium to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period, and the purchaser’s basis in such Premium Tax Exempt Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Tax Exempt Bond prior to its maturity. Even though the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Tax Exempt Bonds should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Tax Exempt Bond.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Tax Exempt Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments to any owner of the Tax Exempt Bonds who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Tax Exempt Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

The Taxable Bonds

The Series EN Bonds to be Designated as Qualified School Construction Bonds. The State intends to elect to designate the Series EN Bonds as taxable “Qualified School Construction Bonds” pursuant to Section 54F of the Code and as “Specified Tax Credit Bonds” pursuant to Section 6431 of the Code. As described below, interest on the Series EN Bonds is not excludable from gross income for federal income tax purposes under Section 103 of the Code. Thus, owners of the Series EN Bonds generally must include interest (including any original issue discount) on the Series EN Bonds in gross income for federal income tax purposes. **In addition, the owners of the Series EN Bonds will not be entitled to a tax credit with respect to the Series EN Bonds.**

General Matters. Bond Counsel is of the opinion that interest on the Taxable Bonds is included in gross income for federal income tax purposes. Bond Counsel is also of the opinion that, under existing State statutes, interest on the Taxable Bonds is exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer and estate taxes and certain franchise taxes. Bond Counsel has expressed no opinion regarding other tax consequences arising with respect to the Taxable Bonds under the laws of the State or any other state or jurisdiction. A copy of the proposed form of opinion of Bond Counsel with respect to the Bonds, including the Taxable Bonds, is attached as Appendix G to this Official Statement.

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the Taxable Bonds under the Code and the Regulations, and the judicial and administrative rulings and court decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor certain types of investors subject to special treatment under the federal income tax laws. Potential purchasers of the Taxable Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Taxable Bonds.

In general, interest paid on the Taxable Bonds, original issue discount, if any, and market discount, if any, will be treated as ordinary income to the owners of the Taxable Bonds, and principal payments (excluding the portion of such payments, if any, characterized as original issue discount or accrued market discount) will be treated as a return of capital.

Bond Premium. An investor that acquires a Taxable Bond for a cost greater than its remaining stated redemption price at maturity and holds such bond as a capital asset will be considered to have purchased such bond at a premium and, subject to prior election permitted by Section 171(c) of the Code, may generally amortize such premium under the constant yield method. Except as may be provided by regulation, amortized premium will be allocated among, and treated as an offset to, interest payments. The basis reduction requirements of Section 1016(a)(5) of the Code apply to amortizable bond premium that reduces interest payments under Section 171 of the Code. Bond premium is generally amortized over the bond's term using constant yield principles, based on the purchaser's yield to maturity. Investors of any Taxable Bond purchased with a bond premium should consult their own tax advisors as to the effect of such bond premium with respect to their own tax situation and as to the treatment of bond premium for state tax purposes.

Market Discount. An investor that acquires a Taxable Bond for a price less than the adjusted issue price of such bond (or an investor who purchases a Taxable Bond in the initial offering at a price less than the issue price) may be subject to the market discount rules of Sections 1276 through 1278 of the Code. Under these sections and the principles applied by the Regulations, "market discount" means (a) in the case of a Taxable Bond originally issued at a discount, the amount by which the issue price of such bond, increased by all accrued original issue discount (as if held since the issue date), exceeds the initial tax basis of the owner therein, less any prior payments that did not constitute payments of qualified stated interest, and (b) in the case of a Taxable Bond not originally issued at a discount, the amount by which the stated redemption price of such bond at maturity exceeds the initial tax basis of the owner therein. Under Section 1276 of the Code, the owner of such a Taxable Bond will generally be required (i) to allocate each principal payment to accrued market discount not previously included in income and, upon sale or other disposition of the bond, to recognize the gain on such sale or disposition as ordinary income to the extent of such cumulative amount of accrued market discount as of the date of sale or other disposition of such a bond or (ii) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest or, in the case of a Taxable Bond with original issue discount, in proportion to the accrual of original issue discount.

An owner of a Taxable Bond that acquired such bond at a market discount also may be required to defer, until the maturity date of such bond or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry such bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Taxable Bond for the days during the taxable year on which the owner held such bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Taxable Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the owner elects to include such market discount in income currently as it accrues on all market discount obligations acquired by such owner in that taxable year or thereafter.

Attention is called to the fact that Treasury regulations implementing the market discount rules have not yet been issued. Therefore, investors should consult their own tax advisors regarding the application of these rules as well as the advisability of making any of the elections with respect thereto.

Unearned Income Medicare Contribution Tax. Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8 percent of the lesser of (a) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business and certain other listed items of gross income), or (b) the excess of "modified adjusted gross income" of the individual over $200,000 for unmarried individuals ($250,000 for married couples filing a joint return and a surviving spouse). Holders of the Taxable Bonds should consult their own tax advisors regarding the application of this tax to interest earned on the Taxable Bonds and to gain on the sale of a Taxable Bond.

Sales or Other Dispositions. If an owner of Taxable Bond sells the bond, such person will recognize gain or loss equal to the difference between the amount realized on such sale and such owner's basis in such bond. Ordinarily, such gain or loss will be treated as a capital gain or loss.

If the terms of a Taxable Bond were materially modified, in certain circumstances, a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications that may be treated as material are those that relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. Each potential owner of a Taxable Bond should consult its own tax advisor concerning the circumstances in which such bond would be deemed reissued and the likely effects, if any, of such reissuance.

Defeasance. The legal defeasance of the Taxable Bonds may result in a deemed sale or exchange of such bonds under certain circumstances. Owners of such Taxable Bonds should consult their tax advisors as to the federal income tax consequences of such a defeasance.

Backup Withholding. An owner of a Taxable Bond may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Taxable Bonds, if such owner, upon issuance of the Taxable Bonds, fails to provide to any person required to collect such information pursuant to Section 6049 of the Code with such owner's taxpayer identification number, furnishes an incorrect taxpayer identification number, fails to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fails to provide such persons with a certified statement, under penalty of perjury, that such owner is not subject to backup withholding.

Foreign Investors. An owner of a Taxable Bond that is not a "United States person" (as defined below) and is not subject to federal income tax as a result of any direct or indirect connection to the United States of America in addition to its ownership of a Taxable Bond will generally not be subject to United States income or withholding tax in respect of a payment on a Taxable Bond, provided that the owner complies to the extent necessary with certain identification requirements (including delivery of a statement, signed by the owner under penalties of perjury, certifying that such owner is not a United States person and providing the name and address of such owner). For this purpose the term "United States person" means a citizen or resident of the United States of America, a corporation, partnership or other entity created or organized in or under the laws of the United States of America or any political subdivision thereof, or an estate or trust whose income from sources within the United States of America is includable in gross income for United States of America income tax purposes regardless of its connection with the conduct of a trade or business within the United States of America.

Except as explained in the preceding paragraph and subject to the provisions of any applicable tax treaty, a 30% United States withholding tax will apply to interest paid and original issue discount accruing Taxable Bonds owned by foreign investors. In those instances in which payments of interest on the Taxable Bonds continue to be subject to withholding, special rules apply with respect to the withholding of tax on payments of interest on, or the sale or exchange of Taxable Bonds having original issue discount and held by foreign investors. Potential investors that are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Taxable Bond.

Tax-Exempt Investors. In general, an entity that is exempt from federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. An unrelated trade or business is any trade or business that is not substantially related to the purpose that forms the basis for such entity's exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation that gave rise to such interest is subject to acquisition indebtedness. Therefore, except to the extent any owner of a Taxable Bond incurs acquisition indebtedness with respect to such bond, interest paid or accrued with respect to such owner may be excluded by such tax-exempt owner from the calculation of unrelated business taxable income. Each potential tax-exempt holder of a Taxable Bond is urged to consult its own tax advisor regarding the application of these provisions.

ERISA Considerations. The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of any investment by an ERISA Plan in the Taxable Bonds must be determined by the responsible fiduciary of the ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment. Government and non-electing church plans are generally not subject to ERISA. However, such plans may be subject to similar or other restrictions under state or local law.

In addition, ERISA and the Code generally prohibit certain transactions between an ERISA Plan or a qualified employee benefit plan under the Code and persons who, with respect to that plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. In the absence of an applicable statutory, class or administrative exemption, transactions between an ERISA Plan and a party in interest with respect to an ERISA Plan, including the acquisition by one from the other of the Taxable Bonds could be viewed as violating those prohibitions. In addition, Section 4975 of the Code prohibits transactions between certain tax-favored vehicles such as Individual Retirement Accounts and disqualified persons. Section 503 of the Code includes similar restrictions with respect to governmental and church plans. In this regard, the [Issuer] or any dealer of the Taxable Bonds might be considered or might become a "party in interest" within the meaning of ERISA or a "disqualified person" within the meaning of the Code, with respect to an ERISA Plan or a plan or arrangement subject to Sections 4975 or 503 of the Code. Prohibited transactions within the meaning of ERISA and the Code may arise if the Taxable Bonds are acquired by such plans or arrangements with respect to which the State or any dealer is a party in interest or disqualified person.

In all events, fiduciaries of ERISA Plans and plans or arrangements subject to the above sections of the Code, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in the Taxable Bonds. The sale of the Taxable Bonds to a plan is in no respect a representation by the State or the Underwriter that such an investment meets the relevant legal requirements with respect to benefit plans generally or any particular plan. Any plan proposing to invest in the Taxable Bonds should consult with its counsel to confirm that such investment is permitted under the plan documents and will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA, the Code and other applicable law.

Treasury Circular 230 Disclosure. Any federal tax advice contained in this Official Statement was written to support the marketing of the Taxable Bonds and is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding any penalties that may be imposed under the Code. All taxpayers should seek advice based on such taxpayers' particular circumstances from an independent tax advisor. This disclosure is provided to comply with Treasury Circular 230.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to under this heading "TAX MATTERS" or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

PROSPECTIVE PURCHASERS OF THE BONDS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO ANY PURCHASE OF THE BONDS AS TO THE IMPACT OF THE CODE UPON THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock 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

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, RBC Capital Markets, LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co., Jefferies LLC, J.P. Morgan Securities LLC, Piper Jaffray & Co., 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 $87,334,670.30, less an aggregate underwriting discount of $2,488,848.38, which includes $506,700.00 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.

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.

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.

J.P. Morgan Securities LLC, one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from J.P. Morgan Securities LLC at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm 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 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, New York, New York, as pricing advisor with respect to the issuance of the Bonds. First Southwest Company 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. First Southwest Company 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 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."

The State has not failed to comply in any material respect with any of its previous continuing disclosure certificates under the Rule during the previous five years. 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 Inc. (the "Verification Agent") will verify from the information provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated the mathematical accuracy as of the date of issuance of the Bonds of (1) the computations contained in the schedules provided by Merrill Lynch, Pierce, Fenner & Smith Incorporated 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 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 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, 2012, 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 unqualified 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.

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APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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

INTRODUCTION

General

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, 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, 2013 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, 2013, 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, 2011, 2012 and 2013 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, 2013 and on the Bonds, after exclusions therefrom permitted by the Constitution, is $686,297,481 in the fiscal year ending June 30, 2015. 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, 2013, the amount of authorized but unissued general obligation bonds (including the Series EH Bonds, the Series EM Bonds and the Series EN Bonds) is $2,872,489,683. 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 Hawaiian 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 expenditures and revenue enhancement.

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 year, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. The Constitution does not specify the amount of, or a formula for calculating, any such tax refund or tax credit. Because the fiscal year 2006 and 2007 fund balances exceeded 5% of General Fund revenues for those years, the two successive fiscal year criterion was met and the 2008 Legislature passed Act 58, SLH 2008 to provide for a tax credit in the aggregate amount of approximately $1,000,000. The fund balance for fiscal year 2008 also exceeded 5% of General Fund revenues and the 2009 Legislature passed Act 84, SLH 2009, to provide for a tax credit in the aggregate amount of approximately $1,100,000. Because the fund balances for fiscal years 2009, 2010, 2011 and 2012 did not exceed 5% of General Fund revenues, the 2010, 2011, 2012 and 2013 legislatures were not required to provide for a tax refund or tax credit. Although the fund balance for fiscal year 2013 exceeded 5% of General Fund revenues, because the fund balance for fiscal year 2012 did not exceed 5% of General Fund revenues, the 2014 Legislature will not be required to provide for a tax refund or tax credit. 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. Although General Fund revenues exceeded the preceding fiscal year's revenues by 5% in fiscal years 2011, 2012 and 2013 and the balance of the EBRF for those years was less than 10% of General Fund revenues for the preceding year, the General Fund balance exceeded General Fund revenues by 5% only in fiscal year 2013; therefore, no deposits into the EBRF have been required to date and the 2014 legislature will also not be required to make such a deposit. 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. 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 2013, 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 FY 2013, the general excise tax comprised approximately 50% 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 costs of assessment, collection and disposition incurred by the State.

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 level of 8.2%. 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. For the period beginning January 1, 1999, the TAT was 7.25%. For the period beginning July 1, 2009, and ending June 30, 2010, an additional 1.0% was assessed (total of 8.25%). For the period beginning July 1, 2010, and ending June 30, 2015, an additional 2.0% is being assessed (total of 9.25%). The additional amounts have been deposited to the General Fund, except that 12.5% of the additional amount for FY 2011 was deposited to the Tourism Special Fund. Act 103, SLH 2011, established a $10 daily tax on each transient accommodation furnished at no charge. Act 103 also temporarily (from July 1, 2011 to June 30, 2015) limits the TAT revenue distribution to the counties to $93 million per year, and limits the distribution to the Tourism Special Fund to $69 million per year. Act 171, SLH 2012, temporarily (from July 1, 2012 to June 30, 2015) increases the distribution to the Tourism Special Fund from $69 million to $71 million. Any revenue in excess of these limits is retained by the General Fund. Act 161, SLH 2013, made permanent: (1) the TAT rate of 9.25%, (2) the $93 million distribution to the counties, and (3) the $33 million distribution to the convention center enterprise special fund. The act also increased the distribution to the Tourism Special Fund from $71 million to $82 million and made it permanent; repealed the $10 daily tax on each transient accommodation furnished at no charge that was established by Act 103, SLH 2011; and kept the TAT on time share vacation units at 7.25%.

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 .8775% and 4.68% 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 dealers 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 FYs 2004 to 2008 and FYs 2010 to FY 2013, 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 FY 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 2013, 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 on-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.

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, 2015. 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. Approximately 50% of the federal grants are awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 25% of such federal grants are used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 8% of all federal grants, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, account for about 9% of such federal receipts. Other programs account 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)
2002	$1,382.2
2003	1,590.8
2004	1,724.9
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*

* Includes $367.7 million is fiscal year 2010, $506.7 million in fiscal year 2011, $158.0 million in fiscal year 2012 and $62.9 million in fiscal year 2013 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).

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

The Legislature convenes annually in regular session on the third Wednesday in January. Regular sessions are limited to a period of 60 days, and special sessions are limited to a period of 30 days. Any session may be extended by no more than 15 days. At least 30 days before the Legislature convenes in regular session in an odd numbered year, the Governor 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 2014. 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 2004 through 2013.

Emergency and Budget Reserve Fund Balances
(Fiscal Years Ended June 30, 2004-2013)

Fiscal Year	$ (Millions)
2004	54.0
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)

Source: Department of Accounting and General Services.

(1) In FY 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 FY 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 FY 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.

Act 267, SLH 2013, appropriated $50 million of general funds in fiscal year 2014 to recapitalize the EBRF. Together with estimated revenues of $7.5 million from tobacco settlement moneys, the fund balance at the end of fiscal year 2014 is projected to be $81.7 million.

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 is: 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 University of Hawaii which will change from 27% to 26% and for 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 2004 through 2013.

Tobacco Settlement Proceeds
(Fiscal Years Ended June 30, 2004-2013)

Fiscal Year	$ (Millions)
2004	37.8
2005	38.4
2006	35.2
2007	36.9
2008	56.1
2009	60.4
2010	50.9
2011	47.7
2012	48.6
2013	48.6

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 provides 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 to be deposited to the HHRF in fiscal year 2014 is $105.5 million.

The balance of the HHRF as of June 30, 2013 was $20.8 million. With the addition of $55.5 million from general excise taxes and $50 million from General Fund appropriations, the fund balance at the end of fiscal year 2014 is projected to be $126.3 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. Current and projected appropriations for fiscal years 2014 and 2015 are not expected to exceed the expenditure ceiling for those years.

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 State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by HRS Chapter 37. Allotment transfers between different appropriation items within individual departments can be made after approval is obtained from the Governor, or if delegated, the Director of Finance. Unencumbered allotment balances at the end of each quarter shall revert to the related appropriation account, except for the Department of Education and the UH. Requests to amend allotments must be approved by the Director of Finance. If federal funds allocable to a particular item are greater than had been estimated, the general funds are reduced proportionately as allowable, except for the Department of Education. Although the State has a biennial budget, appropriations are made for individual fiscal years and may not be expended interchangeably, except for 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 payments made by them. Financial audits of individual programs and organizations are conducted on a periodic basis by the Department of Accounting and General Services. Internal audits are done on a continuous basis by each department. Management audits are accomplished on an as needed basis by the Department of Budget and Finance. In addition, the State Auditor performs financial and management audits on a selective basis.

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

State Educational Facilities Improvement Special Fund

The State has established a State Educational Facilities Improvement Special Fund ("SEFISF"). The amounts in the SEFISF are to be used solely for capital improvements and facilities under the jurisdiction of the State Department of Education, except public libraries. The fund 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, appropriated $53.0 million for fiscal year 2014 and nothing for fiscal year 2015 of general obligation bond funds to be transferred to the SEFISF.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

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

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 are currently members of bargaining units 3 and 4. The employee voting structure, impasse procedures, and exclusive representative of these employees will be the same as for bargaining units 3 and 4. A timetable for the transition of these employees to the new bargaining unit, including negotiation of a new contract, has not yet been set.

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

A six-year agreement for the period July 2009 through June 2015 with the University of Hawaii Professional Assembly ("UHPA") reached in January 2010 provided a 6.7% salary reduction beginning January 2010 through June 2011. A payroll lag is implemented beginning with the June 30, 2010 pay day. 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 new agreement was ratified April 17, 2013 for Unit 5 (teachers) 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.

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

A new agreement was ratified in April 2013 for the period July 2013 through June 2015, providing the following provisions: for Unit 2 (blue collar supervisors), 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 (white collar workers) and Unit 4 (white collar supervisors), a step movement in the first year ($1,500 lump sum payment for those not on the salary schedule) and 4% increase in the second year; and Unit 8 (University of Hawaii administrative, professional technical staff), a 4% increase in the first year and two step movement 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).

Unit 10 (institutional health and correctional workers) is subject to mandatory binding arbitration. An arbitration award for the period July 2011 through June 2013 was issued January 10, 2013 providing a 3.2% increase on January 16, 2013. A new agreement for the period July 2013 through June 2017 was ratified by the United Public Workers for the period July 2013 through June 2017 on October 9, 2013. The agreement provides for a step movement in each year of the agreement and across the board increases of 0.3% January 2014, 0.5% January 2015, 0.5% January 16 and 1.0% January 2017.

Unit 9 (registered nurses) is subject to mandatory binding arbitration. An arbitration award was issued April 12, 2013 for the period July 2011 through June 2013, providing 4% increases on January 1, 2013 and April 1, 2013 as well as step movements for eligible employees. The parties exchanged proposals in June, 2013 for the next contract period beginning July 1, 2013. On August 20, 2013 the Hawaii Government Employees Association (HGEA) submitted a letter to the Hawaii Labor Relations Board (HLRB) stating that the parties have reached impasse concerning contract negotiations. Although the employer sent a letter to HLRB disagreeing with HGEA's pronouncement, HLRB issued an order declaring an impasse date of August 20, 2013 and appointed a mediator. Mediation was conducted. An arbitration date has not yet been set.

Unit 11 (firefighters) is subject to mandatory binding arbitration. An arbitration hearing was held March 11–15, 2013, but the proceedings were left open pending the Unit 12 (police officers – no state employees) arbitration award. The Unit 12 award has been issued. The hearing is scheduled to continue on November 12 and 13.

Unit 6 (educational officers) is at impasse and are subject to binding arbitration. An arbitration hearing was held October 21 through 24. Completion of the hearing has been suspended pending a ruling by the Hawaii Labor Relations Board on a prohibited practice complaint filed by the Hawaii Government Employees Association regarding proposals included in the employer's final position.

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 employee retirement and unfunded Other Post Employment Benefit ("OPEB") liabilities. As described below, the State has revised the retirement benefit structure for new employees hired after July 1, 2012, and 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, 2012 and 2011.

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. The Trust Fund will separately track employer contributions and has prepared Trust Fund financial statements as an Agent Multiple Employer Plan under GASB 43.

The State has received the State of Hawaii Employer Union Trust Fund ("EUTF") July 1, 2011 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, Aon Hewitt. 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 ending June 30, 2012.

The Trust Fund Report provides, based on stated actuarial assumptions, costs with no prefunding of the ARC and a discount rate of 4%. The Trust Fund Report states that the State's AAL as of July 1, 2011 is $13,566.8 million, and the corresponding ARC for the fiscal year ending June 30, 2013 would be $994.9 million. The estimated Trust Fund pay as you go funding amount for fiscal year ending June 30, 2013 was $311.5 million. The Trust Fund Report will be updated every two years.

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 Reports. 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 and requires the annual public employer contribution to be equal to the amount determined by an actuary commencing with the FY 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 FY 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 FY 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://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 87th Annual Actuarial Valuation for the Year Ended June 30, 2012 (the "2012 Valuation Report"), which is the most recent valuation report of the System. The information presented in the 2012 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in January 2013. 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. The new benefit structure does not apply to any employees currently covered by the System. Therefore, the liabilities disclosed in the 2012 Valuation Report prepared by the System's actuary do not yet reflect the impact of the new benefit provisions. However, included in the 2012 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 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.

The full impact of GASB 67 and 68 cannot be predicted at this time. However, it is anticipated that these Statements may result in substantial increases in the reported unfunded pension liabilities of most governmental defined benefit pension plans and State governments. At this time, however, it is not expected to result in a substantial increase in reported unfunded liabilities for the State of Hawaii.

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%. 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, 2012, the contributory plan covered 6,499 active employees or 10% of all active members of the System, the noncontributory plan covered approximately 18,970 active employees or 29%, and the Hybrid Plan covered 40,130 active members or 61%. 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, 2012, the System's membership comprised approximately 65,599 active employees, 6,909 inactive vested members and 40,774 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, 2011 and 2012:

Category		June 30, 2011	June 30, 2012
Active		65,310	65,599
Inactive		6,649	6,909
Retirees and beneficiaries		39,689	40,774
Total		**111,648**	**113,282**

Funded Status

Like most public pension funds in the United States, the System was significantly impacted by the severe downturn in the investment markets during fiscal year 2009. Based on the actuarial valuation as of June 30, 2012, the System's underfunded status has increased significantly because of continued recognition of market investment losses and changes to the actuarial assumptions. However, the System had a partially 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, 2012 was $8.44 billion. The UAAL is projected to be $8.82 billion as of June 30, 2012. 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 22.0% for police and fire employees and 15.50% 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 30 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, 2012.

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, 2012 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, 2012 was 11.05% of payroll, which was 10.14% of payroll less than the total contributions required by law (16.11% from employers plus 5.08% in the aggregate from employees). Since only 5.97% of the employers' 16.11% contribution is required to meet the normal cost (5.08% comes from the employee contribution), it is intended that the remaining 10.14% 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 or below of 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 continuing the investment yield rate of 7.75%, 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. The new assumptions, funding changes and benefit structure are reflected in the 2012 Valuation Report.

The State anticipates that as the percentage of employees hired after July 1, 2012, increases and the new funding policies impact the Retirement System, the State will be able to fully amortize the UAAL over a 30 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 30 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)
2003	$9,074.0	$11,952.1	$2,878.1	$75.9%	$2,826.7	101.8%
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	12,242.2	20,683.4	8,440.9	59.2%	3,890.0	217.0%

Source: The 2012 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 $9.8 billion as of June 30, 2010, $11.6 billion as of June 30, 2011 and $11.3 billion as of June 30, 2012. Actuarial certification of assets as of June 30, 2011 was $11.9 billion (See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix B hereto). The June 30, 2012 actuarial certification of assets was $12.2 billion, and its unfunded actuarial accrued liability was $8.4 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 2011 and 2012:

NORMAL COST

	June 30,					
	2012			2011		
	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%	20.29%	9.87%	11.06%
Employee contribution rate	12.20%	4.19%	5.08%	12.20%	4.09%	5.00%
Effective employer normal cost rate	7.98%	5.69%	5.97%	8.09%	5.78%	6.06%

Source: The 2012 Valuation Report.

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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, 2011**
AVA	$12,242.5 million	$11,942.8 million
Market Value of Assets	$11,285.9 million	$11,642.3 million
Market Value as Percentage of AVA	92.2%	97.5%
Funded Ratio (AVA)	59.2%	59.4%
Funded Ratio (Market Value)	54.6%	57.9%

Source: The 2012 Valuation Report.

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

(Dollar amounts in thousands)

June 30,	**Annual Required Contribution**	**Actual Contribution**	**Percentage Contributed**
2003	$190,586	$190,586	100.0%
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%

Source: The 2012 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, 2012:

ASSET ALLOCATION

(as of June 30, 2012)

	Actual Allocation		Target Allocation		Allocation
Asset Type	**Amount ($mm)**	**Percentage**	**Amount ($mm)**	**Percentage**	**Difference**
Domestic Equity	$3,671.3	32.5%	$3,951.5	35.0%	-2.5%
Non-US Equity	2,370.9	21.0%	2,370.9	21.0%	0.0%
Fixed Income	2,890.6	25.6%	2,709.6	24.0%	1.6%
Real Estate	949.4	8.4%	790.3	7.0%	1.4%
Private Equity	438.0	3.9%	564.5	5.0%	-1.1%
Real Return	526.8	4.7%	564.5	5.0%	-0.3%
Covered Calls	351.5	3.1%	338.7	3.0%	0.1%
Other	91.5	0.8%	0.0	0.0%	0.8%
Total	**$11,290.0**	**100.0%**	**$11,290.0**	**100.0%**	

Source: Valuations provided by Northern Trust – 2012; values unaudited.

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

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") Third Quarter 2013 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." Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy below under "State of the Economy," there is a brief description in "Outlook for the Economy" below of the impact of these components on the State's fiscal position. See APPENDIX B—"FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII."

DBEDT's latest forecast for the State's nominal Gross Domestic Product ("GDP") (the value of all goods and services produced within the State, formerly called the Gross State Product or "GSP") growth in 2013 is 4.4 percent. In real terms (adjusting for inflation), DBEDT estimates that the 2013 State's GDP growth to be 2.6 percent over that of 2012.

State of the Economy

Hawaii's major economic indicators were mostly positive in the second quarter of 2013. Visitor arrivals and average daily visitor census both increased, and visitor expenditures increased even more. Government contracts awarded, private building permits, wage and salary jobs, personal income, and State General Fund tax revenues all increased in the quarter as compared to the same quarter last year.

Hawaii's tourism sector performed well in the second quarter of 2013 compared to the same quarter of 2012. The total number of visitors arriving by air to Hawaii increased 4.4 percent in the quarter. Both international and domestic visitor arrivals increased. Due to shorter lengths of stay, the daily visitor census increased 2.5 percent in the quarter. However, since visitors spent more on a daily basis during the second quarter, total visitor spending increased 4.5 percent in the quarter.

In construction, the government contracts awarded and the value of private building permits both increased. In the second quarter of 2013, government contracts awarded increased $90.4 million; the permit value for private construction increased $66.7 million compared to the same quarter of 2012. In the second quarter of 2013, the construction sector added 2,800 jobs or 9.7 percent compared with the same quarter of 2012. According to the most recent data available, current construction put-in-place based on excise tax data increased $286.2 million or 18.3 percent in the first quarter of 2013 compared with the same quarter of 2012.

In the second quarter of 2013, State General Fund tax revenues were up $115.6 million or 7.9 percent over the same period of 2012. As an indicator of current economic activity, state general excise tax revenue increased $52.9 million or 7.5 percent in the second quarter of 2013 compared to the same quarter in 2012. For the first half of 2013, State General Fund tax revenues increased $211.7 million or 8.0 percent, and state general excise tax revenue increased $99.7 million or 7.0 percent, compared with the same period last year.

The labor market conditions also show that the economy is improving. 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 eleventh time. In the second quarter of 2013, Hawaii's civilian non-agricultural wage and salary jobs averaged 612,200 jobs, an increase of 8,000 jobs or 1.3 percent from the same quarter of 2012. The number of non-agricultural wage jobs increased to an average of 612,800 jobs in August 2013.

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 2013 increased $2,175 million or 3.6 percent from the same quarter of 2012. 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 2013 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, supplements to wage and salaries, which include retirement and unemployment insurance benefits, personal current transfer receipts, and proprietors' income. In 2012, total annualized personal income was $61,339 million, an increase of 3.9 percent from the previous year.

According to the most recent data available, consumer prices in Honolulu increased 1.8 percent in the first half of 2013 compared with the same period of 2012, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 1.5 percent in the first half of 2013. In 2012, the Honolulu CPI-U increased 2.4 percent from the previous year.

The lower growth rate for Honolulu CPI-U in the first half of 2013 was primarily due to relatively slower growth in prices in most of the consumption categories that comprise the index. Other than housing and medical care, which experienced price acceleration, all other categories experienced slower price increases while apparel and transportation had price decreases.

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 in the state, and growth of personal income and tax revenues, Hawaii's economy is expected to expand for the rest of 2013 and into 2014. 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 2013 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 1.5 percent in 2013 as a whole, 0.6 of a percentage point lower than the 2.1 percent growth rate projected in the April 2013 forecast. For 2014, the consensus forecast now expects an overall 2.6 percent growth in U.S. real GDP, slightly lower than the 2.7 percent growth rate projected in the April 2013 forecast.

Forecasts for Japan were more optimistic for 2013 in the August 2013 Blue Chip Economic Consensus Forecasts. Real GDP growth for Japan is now expected to increase 1.7 percent in 2013, higher than the 1.1 percent growth rate projected in the April 2013 forecast. For 2014, the consensus forecast now expects an overall 1.7 percent growth in Japanese real GDP, same as the growth rate projected in the April 2013 forecast.

For the local economy, DBEDT expects most of the economic indicators will continue to grow positively in the years to come.

Overall, Hawaii's economy measured by real GDP is projected to show a 2.6 percent increase in 2013, 0.2 of a percentage point higher than the growth rate forecasted last quarter. Real GDP growth in 2014 is expected at 2.4 percent, 0.1 of a percentage point higher than the growth rate forecasted last quarter.

Hawaii's seasonally-adjusted unemployment rate declined to 4.3 percent in August 2013, the lowest since July 2008. Hawaii's seasonally-adjusted unemployment rate is projected to be 4.5 percent in 2014.

Visitor arrivals are expected to increase 4.3 percent in 2013, same as the previous forecast. The forecast for visitor days in 2013 decreased from 3.1 percent to 2.7 percent. The forecast for visitor expenditure in 2013 is revised downward to 5.3 percent, from 5.6 percent growth projected in the previous forecast. For 2014, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 3.0 percent, 3.1 percent, and 5.0 percent, respectively.

The projection for non-agricultural wage and salary job growth rate in 2013 is 1.8 percent, 0.2 of a percentage point below the previous forecast. In 2014, jobs are projected to increase 1.8 percent, same as the previous forecast.

The Honolulu Consumer Price Index (CPI), which increased 2.4 percent in 2012, is now expected to increase 1.9 percent in 2013, 0.4 of a percentage point below the previous forecast. In 2014, the CPI is projected to increase 2.2 percent, same as the previous forecast.

Personal income in current dollars is now expected to increase 4.5 percent in 2013, 0.5 of a percentage point lower than the previous forecast. The real personal income is currently projected to grow 2.6 percent in 2013, same as the previous forecast. In 2014, current-dollar personal income and real personal income are expected to increase 5.2 percent and 2.9 percent, respectively.

Beyond 2014, the economy will remain at the expansion path with job growth expected to increase 1.7 percent in 2015 and 1.5 percent in 2016. Visitor arrivals are expected to increase 2.1 percent in 2015 and 2.0 percent in 2016. Visitor expenditures are expected to increase 4.8 percent in 2015 and 4.6 percent in 2016. Real personal income is projected to increase 2.7 percent in 2015 and 2.4 percent in 2016. Hawaii's real GDP growth is expected to increase 2.4 percent in 2015 and 2.3 percent in 2016. Unemployment rate is expected to be 4.3 percent in 2015 and 4.1 percent in 2016.

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

TABLE 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	2nd QUARTER 2012	2nd QUARTER 2013	% CHANGE YEAR AGO	YEAR-TO-DATE 2012	YEAR-TO-DATE 2013	% CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	653,100	649,400	-0.6	653,450	648,200	-0.8
Civilian employed, NSA	613,100	618,850	0.9	613,150	616,350	0.5
Civilian unemployed, NSA	40,000	30,550	-23.6	40,300	31,850	-21.0
Unemployment rate, NSA (%) 1/ 2/	6.1	4.7	-1.4	6.2	4.9	-1.3
Total wage and salary jobs, NSA	610,700	618,200	1.2	608,000	616,650	1.4
Total non-agric. wage & salary jobs	604,200	612,200	1.3	601,550	610,550	1.5
Nat. Resources, Mining, Constr.	28,800	31,600	9.7	28,600	31,250	9.3
Manufacturing	13,150	12,950	-1.5	13,250	13,050	-1.5
Wholesale Trade	17,550	18,050	2.8	17,550	18,050	2.8
Retail Trade	67,850	67,200	-1.0	67,900	67,550	-0.5
Transp., Warehousing, Util.	27,950	28,900	3.4	27,800	28,950	4.1
Information	8,150	8,250	1.2	8,300	8,350	0.6
Financial Activities	26,900	27,300	1.5	26,800	27,100	1.1
Professional & Business Services	76,550	76,800	0.3	75,950	76,850	1.2
Educational Services	14,950	14,600	-2.3	14,950	14,650	-2.0
Health Care & Social Assistance	61,650	62,650	1.6	61,300	62,650	2.2
Arts, Entertainment & Recreation	11,250	11,550	2.7	11,000	11,400	3.6
Accommodation	37,450	37,850	1.1	37,300	37,950	1.7
Food Services & Drinking Places	58,100	59,650	2.7	57,750	58,750	1.7
Other Services	26,150	27,800	6.3	26,000	27,500	5.8
Government	127,750	127,050	-0.5	127,200	126,600	-0.5
Federal	34,850	33,900	-2.7	34,850	34,050	-2.3
State	74,450	74,550	0.1	74,000	74,100	0.1
Local	18,450	18,550	0.5	18,350	18,450	0.5
Agriculture wage and salary jobs	6,500	6,000	-7.7	6,400	6,100	-4.7
State general fund revenues ($1,000)	1,455,995	1,571,559	7.9	2,642,781	2,854,485	8.0
General excise and use tax revenues	703,779	756,693	7.5	1,414,871	1,514,616	7.0
Income—individual	506,048	516,014	2.0	782,711	867,338	10.8
Declaration estimated taxes	212,524	253,491	19.3	281,628	346,525	23.0
Payment with returns	84,582	101,944	20.5	100,296	114,392	14.1
Withholding tax on wages	360,611	386,907	7.3	736,240	789,668	7.3
Refunds ('-') indicates relative to State)	-151,668	-226,180	49.1	-335,453	-383,101	14.2
Transient accommodations tax	84,780	97,645	15.2	175,531	200,308	14.1
Honolulu County Surcharge 3/	52,210	(NA)	(NA)	105,825	(NA)	(NA)
Private Building Permits ($1,000)	647,291	714,032	10.3	1,203,978	1,343,107	11.6
Residential	246,595	193,302	-21.6	391,881	482,439	23.1
Commercial & industrial	50,613	145,657	187.8	112,086	192,555	71.8
Additions & alterations	350,083	375,073	7.1	700,011	668,112	-4.6
Visitor Days—by air	17,387,660	17,823,481	2.5	36,559,574	37,678,103	3.1
Domestic visitor days—by air	13,330,222	13,554,701	1.7	27,143,678	27,797,271	2.4
International visitor days—by air	4,057,438	4,268,780	5.2	9,415,896	9,880,832	4.9
Visitor arrivals by air—by air	1,910,870	1,995,395	4.4	3,844,861	4,055,724	5.5
Domestic flight visitors—by air	1,368,575	1,404,323	2.6	2,670,305	2,773,839	3.9
International flight visitors—by air	542,295	591,072	9.0	1,174,556	1,281,885	9.1
Hotel occupancy rates (%) 2/	73.8	73.8	0.0	77.0	77.7	0.7
Visitor expend.—arrivals by air ($Mil.)	3,302	3,449	4.5	6,885	7,364	7.0

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://dbedt.hawaii.gov/economic/>, Hawaii State Department of Labor & Industrial Relations
<http://labor.hawaii.gov/rs/>; Hawaii State Department of Taxation
http://www6.hawaii.gov/tax/a5_3txcolrpt.htm; Hospitality Advisors, LLC. And U.S. 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: 2011 TO 2016

Economic Indicators	2011	2012	2013	2014	2015	2016
	(Actual)		(Forecast)			
Total population (thousands)	1,378	1,392	1,407	1,421	1,436	1,451
Visitor arrivals (thousands) 1/	7,299	8,029	8,370	8,618	8,798	8,971
Visitor days (thousands) 1/	68,467	74,519	76,566	78,948	80,620	82,207
Visitor expenditures (million dollars) 1/	12,158	14,365	15,130	15,885	16,652	17,424
Honolulu CPI-U (1982-84=100)	243.6	249.5	254.2	259.8	266.3	274.3
Personal income (million dollars)	59,014	61,339	64,100	67,433	71,007	74,912
Real personal income (millions of 2000$) 2/	42,706	43,348	44,454	45,758	47,008	48,149
Non-agricultural wage & salary jobs (thousands)	594.0	605.3	616.2	627.3	638.0	647.5
Civilian unemployment rate	6.5	5.8	4.8	4.5	4.3	4.1
Gross domestic product (million dollars)	70,006	72,424	75,645	79,017	82,572	86,287
Real gross domestic product(millions of 2005$)	60,899	61,877	63,486	65,009	66,570	68,101
Gross domestic product deflator (2005=100)	115.0	117.0	119.2	121.5	124.0	126.7
Annual Percentage Change						
Total population	1.0	1.0	1.0	1.0	1.0	1.0
Visitor arrivals	4.0	10.0	4.3	3.0	2.1	2.0
Visitor days	4.6	8.8	2.7	3.1	2.1	2.0
Visitor expenditures	9.9	18.1	5.3	5.0	4.8	4.6
Honolulu CPI-U	3.7	2.4	1.9	2.2	2.5	3.0
Personal income	5.7	3.9	4.5	5.2	5.3	5.5
Real personal income	1.9	1.5	2.6	2.9	2.7	2.4
Non-agricultural wage & salary jobs	1.2	1.9	1.8	1.8	1.7	1.5
Civilian unemployment rate3/	-0.3	-0.7	-1.0	-0.3	-0.2	-0.3
Gross domestic product	4.1	3.5	4.4	4.5	4.5	4.5
Real gross domestic product	2.1	1.6	2.6	2.4	2.4	2.3
Gross domestic product deflator (2005=100)	2.0	1.8	1.8	2.0	2.1	2.2

1/ Visitors who came to Hawaii by air or by cruise ship.
2/ DBEDT calculated using BEA estimate of nominal personal income deflated by U.S. Bureau of Labor Statistics Honolulu CPI-U.
3/ Absolute change from previous year.

Source: Hawaii State Department of Business, Economic Development & Tourism, August 20, 2013.

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Labor Force and Jobs

Hawaii's labor market continued to improve in the second quarter of 2013. Since the civilian labor force decreased and the civilian employment increased in the quarter, the civilian unemployment rate decreased 1.4 percentage points in the quarter. For the eleventh consecutive quarter, civilian non-agricultural wage and salary jobs increased.

In the second quarter of 2013, the civilian labor force averaged 649,400 people, a decrease of 3,700 people or 0.6 percent from the same quarter of 2012. For the first half of 2013, the civilian labor force decreased 5,250 people or 0.8 percent from the same period last year.

Civilian employment totaled 618,850 people in the second quarter of 2013, an increase of 5,750 people or 0.9 percent compared to the same quarter of 2012. This is the third quarterly increase following three consecutive quarterly decreases from the first quarter of 2012 to the third quarter of 2012. For the first half of 2013, average civilian employment increased 3,200 people or 0.5 percent from the same period last year.

In the second quarter of 2013, the number of civilian unemployed averaged 30,550, a decrease of 9,450 people or 23.6 percent from the same quarter of 2012. For the first half of 2013, the number of unemployed decreased 8,450 people or 21.0 percent from the same period last year.

The unemployment rate (not seasonally adjusted) decreased from 6.1 percent in the second quarter of 2012 to 4.7 percent in the second quarter of 2013. For the first half of 2013, the unemployment rate decreased 1.3 percentage point from the same period last year.

In the second quarter of 2013, Hawaii's civilian non-agricultural wage and salary jobs averaged 612,200 jobs, an increase of 8,000 jobs or 1.3 percent from the same quarter of 2012. This is the eleventh 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 2013, average non-agricultural wage and salary jobs increased 1.5 percent or 9,000 jobs from the same period last year.

The job increase in the second quarter of 2013 was due to job increases in the private sector. In this quarter, the private sectors added about 8,700 non-agricultural jobs compared to the second quarter of 2012. Jobs increased the most in Natural Resources, Mining, and Construction, which added 2,800 jobs or 9.7 percent; followed by Other Services, added 1,650 jobs or 6.3 percent, Food Services and Drinking Places, added 1,550 jobs or 2.7 percent, Health Care & Social Assistance, added 1,000 jobs or 1.6 percent, Transportation, Warehousing, and Utilities, added 950 jobs or 3.4 percent, and Wholesale Trade, added 500 jobs or 2.8 percent. Job growth also occurred in visitor-related industries in the quarter. Accommodation added 400 jobs or 1.1 percent compared to the same quarter of 2012.

In the second quarter of 2013, Manufacturing (lost 200 jobs), Educational Services (lost 350 jobs), and Retail Trade (lost 650 jobs) lost jobs compared to the same quarter of 2012.

During the second quarter of 2013, the three levels of government lost 700 jobs or 0.5 percent compared to the same quarter of 2012. The Federal Government lost 950 jobs; the State Government added 100 jobs, while Local Government also added 100 jobs.

The initial liable claims for unemployment, which measures the number of people who lost jobs in Hawaii and moved to other states, increased 11.5 percent in the second quarter of 2013 compared to the same quarter of 2012. For the first half of 2013, the initial liable claims for unemployment increased 3.1 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	637,200	-1.0	593,500	-3.9	6.9
2010	647,800	1.7	603,900	1.8	6.8
2011	657,750	1.5	614,800	1.8	6.5
2012	651,600	-0.9	613,700	-0.2	5.8
2013*	648,200	-0.8	616,350	0.5	4.9

*First half of 2013.

Source: Hawaii State Department of Labor and Industrial Relations

Income and Prices

Hawaii’s total personal income increased during the first quarter of 2013 over the same quarter of 2012, 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, supplements to wage and salaries, which include retirement and unemployment insurance benefits, personal current transfer receipts, and proprietors’ income.

In the first quarter of 2013, total nominal annualized personal income (i.e., not adjusted for inflation) increased $2,175 million or 3.6 percent from the first quarter of 2012. In 2012, total annualized personal income was $61,339 million, an increase of 3.9 percent from the previous year.

In the first quarter of 2013, wage and salary disbursements increased $1,216 million or 4.0 percent from the first quarter of 2012. This was the eleventh quarter-over-quarter increase since the third quarter of 2010. In 2012, wage and salary disbursements increased 3.1 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 $431 million or 4.4 percent in the first quarter of 2013 from the same quarter of 2012. In 2012, supplements to wages and salaries increased 3.2 percent from the previous year.

Proprietors' income increased $286 million or 7.5 percent in the first quarter of 2013 over that of 2012. In 2012, proprietors' income increased 4.2 percent from the previous year.

Dividends, interest, and rent increased $650 million or 5.9 percent in the first quarter of 2013 from the same quarter of 2012. In 2012, income in this category was up 9.7 percent from the previous year.

The annualized personal current transfer receipts grew by $335 million or 3.5 percent in the first quarter of 2013 from the same quarter of 2012. In 2012, personal current transfer receipts increased 3.5 percent from the previous year.

Contributions to government social insurance, which is subtracted from total personal income, increased $745 million or 17.1 percent in the first quarter of 2013 compared to the first quarter of 2012. In 2012, contributions to government social insurance increased 3.2 percent from the same period last year.

In the first quarter of 2013, total non-farm private sector annualized earnings increased $1,523 million or 5.4 percent from the first quarter of 2012. In dollar terms, the largest increase occurred in health care and social assistance, followed by construction, administrative and waste services, management of companies and enterprises, and transportation and warehousing; the largest decrease occurred in finance and insurance.

During the first quarter of 2013, total government earnings increased $422 million or 2.7 percent from the same quarter of 2012. Earnings from the federal government increased $303 million or 3.0 percent in the first quarter of 2013. Earnings from the state and local governments increased $120 million or 2.2 percent in the quarter.

In the first half of 2013, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.8 percent from the same period in 2012, higher than the U.S. average CPI-U increase of 1.5 percent for the same period. In 2012, the Honolulu CPI-U increased 2.4 percent from the previous year. In the first half of 2013, the Honolulu CPI-U increased the most in the price index of Food & Beverages (3.9 percent), followed by Medical Care (2.8 percent), Recreation (2.6 percent), Housing (2.0 percent), Education and Communication (1.8 percent), and Other Goods and Services (1.4 percent). The price of Transportation decreased 0.2 percent, and the price of Apparel decreased 2.3 percent, compared to the first half of 2012.

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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			
								To First Quarter 2013 From		Ann Aver	
Series	First Quarter 2012	Second Quarter 2012	Third Quarter 2012	Fourth Quarter 2012	First Quarter 2013	AnnAver 2011	AnnAver 2012	First Quarter 2012	Fourth Quarter 2012	2011 from 2010	2012 from 2011
PERSONAL INCOME	60,036	61,187	61,411	62,723	62,211	59,014	61,339	3.6	-0.8	5.7	3.9
Earnings by Place of Work	43,736	44,667	44,736	45,388	45,669	43,250	44,632	4.4	0.6	4.1	3.2
Wage and salary disbursements	30,052	30,690	30,652	31,196	31,268	29,733	30,648	4.0	0.2	3.4	3.1
Supplements to wages and salaries	9,853	10,078	10,108	10,146	10,284	9,739	10,046	4.4	1.4	6.7	3.2
Emp'er contrib. for emp'ee pension & ins. funds	7,341	7,519	7,556	7,544	7,647	7,283	7,490	4.2	1.4	5.6	2.8
Employer contributions for gov't social ins.	2,512	2,560	2,553	2,603	2,638	2,455	2,557	5.0	1.3	10.4	4.1
Proprietors' income	3,831	3,899	3,976	4,046	4,117	3,778	3,938	7.5	1.8	2.8	4.2
Farm proprietors' income	25	47	70	57	37	52	50	48.0	-35.1	-15.2	-3.9
Nonfarm proprietors' income	3,806	3,853	3,906	3,989	4,081	3,727	3,889	7.2	2.3	3.1	4.3
Dividends, interest, and rent	11,037	11,248	11,308	12,031	11,687	10,653	11,406	5.9	-2.9	9.6	7.1
Personal current transfer receipts	9,630	9,726	9,811	9,824	9,965	9,418	9,748	3.5	1.4	4.1	3.5
State unemployment insurance benefits	442	414	359	306	282	469	380	-36.2	-7.8	-18.9	-18.9
Personal current transfer receipts exc State U.I.	9,189	9,312	9,452	9,519	9,684	8,948	9,368	5.4	1.7	5.7	4.7
Less: Contributions for gov't social insurance	4,367	4,453	4,443	4,520	5,112	4,306	4,446	17.1	13.1	-4.0	3.2
Personal contributions for gov't social insurance	1,855	1,894	1,890	1,917	2,474	1,851	1,889	33.4	29.1	-18.1	2.1
Employer contributions for gov't social insurance	2,512	2,560	2,553	2,603	2,638	2,455	2,557	5.0	1.3	10.4	4.1
Earnings By Industry	43,735	44,667	44,736	45,388	45,669	43,250	44,632	4.4	0.6	4.1	3.2
Farm Earnings	260	253	278	266	248	287	264	-4.6	-6.8	8.5	-8.0
Nonfarm Earnings	43,475	44,414	44,458	45,122	45,421	42,963	44,367	4.5	0.7	4.1	3.3
Private earnings	28,014	28,680	28,594	29,313	29,537	27,574	28,650	5.4	0.8	3.5	3.9
Forestry, fishing, related activities, and other 6/	62	54	56	60	58	55	58	-6.5	-3.3	9.4	5.0
Mining	33	35	34	37	36	37	35	9.1	-2.7	5.8	-4.8
Utilities	466	482	491	522	520	417	490	11.6	-0.4	9.3	17.5
Construction	3,035	3,058	3,135	3,257	3,364	2,991	3,121	10.8	3.3	1.4	4.4
Manufacturing	765	772	784	811	798	775	783	4.3	-1.6	5.3	1.1
Durable goods	251	256	264	272	267	275	261	6.4	-1.8	9.1	-5.0
Nondurable goods	514	517	520	539	531	500	523	3.3	-1.5	3.4	4.6
Wholesale trade	1,124	1,149	1,162	1,169	1,192	1,101	1,151	6.0	2.0	2.7	4.5
Retail trade	2,664	2,714	2,691	2,730	2,714	2,580	2,700	1.9	-0.6	3.5	4.6
Transportation and warehousing	1,448	1,467	1,500	1,535	1,577	1,423	1,488	8.9	2.7	5.4	4.6
Information	651	651	688	680	699	653	668	7.4	2.8	-9.6	2.3
Finance and insurance	1,371	1,308	1,330	1,399	1,309	1,351	1,352	-4.5	-6.4	2.0	0.1
Real estate and rental and leasing	923	949	965	960	981	990	949	6.3	2.2	2.2	-4.1
Professional and technical services	2,572	2,589	2,633	2,561	2,583	2,506	2,589	0.4	0.9	2.5	3.3
Management of companies and enterprises	649	723	716	806	799	639	724	23.1	-0.9	8.5	13.3
Administrative and waste services	1,818	1,868	1,872	1,916	1,973	1,795	1,869	8.5	3.0	6.8	4.1
Educational services	719	726	704	731	732	688	720	1.8	0.1	5.2	4.7
Health care and social assistance	3,966	4,333	3,992	4,279	4,311	4,046	4,143	8.7	0.7	2.6	2.4
Arts, entertainment, and recreation	472	474	480	449	450	439	469	-4.7	0.2	0.7	6.8
Accommodation and food services	3,613	3,616	3,688	3,703	3,702	3,429	3,655	2.5	0.0	7.6	6.6
Other services, except public administration	1,664	1,713	1,671	1,707	1,738	1,662	1,689	4.4	1.8	3.2	1.6
Government and government enterprises	15,462	15,735	15,864	15,808	15,884	15,389	15,717	2.7	0.5	5.0	2.1
Federal	10,080	10,252	10,302	10,302	10,383	9,962	10,234	3.0	0.8	6.4	2.7
Federal, civilian	3,777	3,785	3,795	3,815	3,751	3,739	3,793	-0.7	-1.7	5.5	1.5
Military	6,303	6,467	6,507	6,487	6,632	6,224	6,441	5.2	2.2	7.0	3.5
State and local	5,382	5,483	5,562	5,507	5,502	5,427	5,484	2.2	-0.1	2.6	1.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, June 28, 2013 <http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=3>.

TABLE 5

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

YEAR	ANNUAL AVERAGE	% CHANGE
1996	30,399	1.0
1997	31,372	3.2
1998	32,259	2.8
1999	33,244	3.1
2000	35,222	5.9
2001	35,936	2.0
2002	37,475	4.3
2003	39,032	4.2
2004	42,285	8.3
2005	45,332	7.2
2006	49,124	8.4
2007	52,556	7.0
2008	55,314	5.2
2009	54,194	-2.0
2010	55,832	3.0
2011	59,014	5.7
2012	61,339	3.9
2013*	62,211	3.6

* First quarter of 2013.
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	Trans-portation	Medical Care	Recreation 1/	Educ. & Comm. 1/	Other Goods & Services
2001	177.1	178.4	169.5	179.1	101.0	174.5	2/	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	2/	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	2/	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005	195.3	197.8	185.9	205.2	102.5	191.6	2/	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	2/	101.1	114.0	332.1
2007	207.342	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
2011H1	223.598	241.902	230.565	258.121	119.380	228.484	321.891	110.544	130.444	435.239
H2	226.280	245.342	234.747	263.092	117.408	229.962	326.468	110.401	134.052	431.834
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
Percentage Change from the Same Period in Previous Year										
2001	2.8	1.2	2.9	0.7	-2.4	2.9	(2/)	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	(2/)	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	(2/)	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	(2/)	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	(2/)	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	(2/)	3.4	-0.3	3.5
2007	2.8	4.8	5.5	7.2	-0.2	1.4	(2/)	1.5	0.0	4.6
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
2011H1	2.8	3.5	2.6	2.9	2.4	6.8	0.2	3.7	3.6	7.0
H2	3.5	4.0	4.4	4.0	1.0	7.0	2.3	1.9	2.3	1.8
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

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 15, 2013.

Tourism

After very strong growth in 2012, Hawaii's tourism sector continued the positive growth in the second quarter of 2013. Both domestic and international visitor arrivals increased in the quarter compared with the same quarter in 2012. Due to shorter lengths of stay, the increase in daily visitor census was lower than the increase in visitor arrivals. However, since visitors spent more on a daily basis during the second quarter of 2013, total visitor spending increased more than the increase in daily visitor census in the quarter. For the economy, visitor spending is more important than visitor arrivals.

The total number of visitors arriving by air to Hawaii increased 84,525 or 4.4 percent in the second quarter of 2013 compared to the same quarter of 2012. The total average daily census was up 4,789 or 2.5 percent in the quarter. For the first half of 2013, total visitor arrivals by air increased 210,863 or 5.5 percent, while average daily census increased 7,290 or 3.6 percent from the same period last year. Total visitor arrivals for the first eight months of 2013 rose 5.5 percent to 5,662,612 visitors.

Following a 5.5 percent growth in the second quarter of 2012, in the second quarter of 2013, total visitor arrivals on domestic flights increased 35,748 or 2.6 percent compared to the same quarter of 2012. For the first half of 2013, domestic arrivals were up 103,534 or 3.9 percent from the same period last year.

After a very strong 27.1 percent growth in the second quarter of 2012, arrivals on international flights increased a strong 48,777 or 9.0 percent in the second quarter of 2013 compared to the second quarter of 2012. For the first half of 2013, international arrivals were up 107,329 or 9.1 percent from the same period last year.

In terms of major market areas, from the second quarter of 2012 to the same period of 2013, arrivals from the U.S. West increased 40,188 or 4.9 percent; arrivals from the U.S. East increased 2,211 or 0.5 percent; and arrivals from Japan increased 14,769 or 4.7 percent. For the first half of 2013, arrivals from U.S. West were up 112,256 or 7.4 percent; arrivals from the U.S. East were up 8,713 or 1.0 percent; and Japanese arrivals were up 34,237 or 5.2 percent from the same period last year.

Because of 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 2.5 percent or 4,789 visitors per day in the second quarter of 2013 over the same quarter of 2012. Domestic average daily census increased 1.7 percent or 2,467 visitors per day, while international average daily census increased 5.2 percent or 2,322 visitors per day. For the first half of 2013, domestic average daily census increased 4,435 or 3.0 percent; international average daily census increased 2,855 or 5.5 percent from the same period last year.

Nominal visitor expenditures by air totaled $3,448.9 million in the second quarter of 2013, up 4.5 percent or $147.0 million from the same quarter of 2012. For the first half of 2013, visitor expenditures increased $479.2 million or 7.0 percent compared with the same period last year. Total visitor expenditures for the first eight months of 2013 rose 5.1 percent to $10 billion.

In the second quarter of 2013, statewide hotel occupancy rate averaged 73.8 percent, same as the second quarter of 2012. For the first half of 2013, statewide hotel occupancy rate averaged 77.7 percent, up 0.6 of a percentage point from the same period last year.

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TABLE 7

VISITOR ARRIVALS BY AIR

Average Length of Stay, Visitor Days, Average Daily Census

	2009	2010	2011	2012	% Change 2009-2010	% Change 2010-2011	% Change 2011-2012
Arrivals							
Total	6,420,448	6,916,894	7,174,397	7,867,143	7.7	3.7	9.7
Domestic	4,672,001	4,957,352	5,127,291	5,403,025	6.1	3.4	5.4
International	1,748,447	1,959,542	2,047,106	2,464,118	12.1	4.5	20.4
Average Length of Stay							
Total	9.38	9.39	9.45	9.36	0.1	0.7	-1.2
Domestic	10.09	10.04	10.09	10.09	-0.4	0.7	-0.5
International	7.51	7.74	7.81	7.78	3.0	0.9	-0.6
Visitor Days							
Total	60,255,061	64,951,433	67,825,871	73,663,903	7.8	4.4	8.3
Domestic	47,121,337	49,788,583	51,839,799	54,492,680	5.7	4.1	4.8
International	13,133,724	15,162,850	15,986,073	19,171,224	15.4	5.4	19.6
Average Daily Census							
Total	165,082	177,949	185,824	201,267	7.8	4.4	8.3
Domestic	129,100	136,407	142,027	148,887	5.7	4.1	4.8
International	35,983	41,542	43,797	52,380	15.4	5.4	19.6

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 1/	80.3	73.8	79.0	74.7	76.9
2013 1/	81.6	73.8	(NA)	Year-to-Date	77.7

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.

1/ Source revises each month of previous year when current year is released.

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 2013. Government contracts awarded, the value of private building authorizations, and construction jobs increased in the quarter, but State Government CIP expenditures decreased.

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 job reached a peak of 40,000 jobs. Since the second quarter of 2008; however, the quarter-over-quarter growth rate of construction jobs has been negative in all quarters until the second quarter of 2011. In the second quarter of 2013, the construction sector added 2,800 jobs or 9.7 percent compared with the same quarter of 2012. For the first half of 2013, the construction sector added 2,650 jobs from the same period last year.

In the second quarter of 2013, the private building authorizations for the whole state increased $66.7 million or 10.3 percent compared with the second quarter of 2012. For the first half of 2013, private building authorizations for the state increased $139.1 million or 11.6 percent compared with the same period last year.

In the second quarter of 2013, the private building authorizations in Honolulu decreased $13.6 million or 3.0 percent compared with the second quarter of 2012. For the first half of 2013, private building authorizations in Honolulu increased $145.8 million or 19.1 percent compared with the same period last year.

In the second quarter of 2013, the private building authorizations in Hawaii County increased $0.1 million or 0.1 percent compared with the second quarter of 2012. For the first half of 2013, private building authorizations in Hawaii County increased $17.0 million or 9.3 percent compared with the same period last year.

In the second quarter of 2013, the private building authorizations in Maui increased $79.2 million or 116.0 percent compared with the second quarter of 2012. For the first half of 2013, private building authorizations in Maui decreased $25.4 million or 11.3 percent compared with the same period last year.

In the second quarter of 2013, the private building authorizations in Kauai increased $1.0 million or 5.2 percent compared with the second quarter of 2012. For the first half of 2013, private building authorizations in Kauai increased $1.7 million or 5.1 percent compared with the same period last year.

Government contracts awarded increased $90.4 million or 32.2 percent in the second quarter of 2013 compared to the same quarter of 2012. For the first half of 2013, government contracts awarded increased $247.7 million or 70.4 percent compared with the previous year. State Government CIP expenditures decreased $227.5 million or 46.0 percent in the quarter. For the first half of 2013, CIP expenditures decreased $170.3 million or 23.2 percent from the same period last year.

In August 2013, Honolulu's median price for single family resales was $665,000, an increase of 9.2 percent from the same month of 2012; the median price for condominium units was $350,000, an increase of 8.0 percent from the same month of 2012. In August 2013, the number of single-family unit resales was up 24.9 percent, and the number of condominium unit resales was up 12.5 percent compared with the same month of 2012. For the first eight months of 2013, the number of single-family unit resales was up 10.3 percent, and the number of condominium unit resales was up 17.2 percent compared with the same period last year; the median price of single-family resales was up 3.1 percent, and the median price of condominium resales was up 6.1 percent compared with the same period last year

Also for the first eight months of 2013, single-family unit resales increased 11.3 percent, and condominium unit resales increased 5.7 percent in Maui County compared to the same period of 2012.

Hawaii's single family residential real estate market has been relatively stable compared with major cities in the United States. According to data compiled by Standard & Poor's and The Economist, median price for single family homes in 20 major U.S. cities dropped by 31.5 percent from the second quarter of 2006 to the second quarter of 2009, while the median price for Honolulu's single family homes dropped 10.9 percent during the same time period. Comparing with the second quarter of 2009, median single family sale price for the 20 major U.S. cities in the first quarter of 2013 increased by 6.1 percent while Honolulu's median price increased by 7.2 percent. While data for the second quarter 2013 are not available for the 20 major cities, Honolulu's median single family home price has fully recovered to the second quarter 2006 level.

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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						
2005	6,024.0	3,492.0	2,259.3	433.5	799.1	725.1
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
2011 1 Qtr.	1,382.9	380.9	146.8	48.1	186.1	75.4
2 Qtr.	1,443.6	438.4	178.4	47.2	212.7	63.0
3 Qtr.	1,468.2	537.7	206.7	80.2	250.8	124.5
4 Qtr.	1,542.7	501.8	156.1	110.4	235.3	167.7
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.	(NA)	714.0	193.3	145.7	375.1	371.0
Percentage Change from the Same Period in Previous Year						
2005	22.4	28.1	27.8	43.0	21.9	-47.6
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
2011 1 Qtr.	-3.1	-16.4	-37.7	-9.5	11.5	-9.2
2 Qtr.	10.9	-18.4	-3.5	-61.8	-7.1	-82.2
3 Qtr.	-1.3	-2.7	5.3	-4.8	-7.7	-64.7
4 Qtr.	12.3	15.3	-3.9	-5.3	50.6	-37.4
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.	(NA)	10.3	-21.6	187.8	7.1	32.2

NA Not available.
First Hawaiian Bank has discontinued compiling Government Contracts Awarded. Hawaii State Department of Business Economic Development & Tourism has compiled preliminary estimates beginning with the fourth quarter 1997 based on data in Building Industry.

1/ Formerly, this category was "Value of Construction Completed," subject to revision by Hawaii State Department of Taxation.
2/ Kauai County available for residential data only.
3/ Includes hotels.

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

TABLE 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY

Year	State	City & County of Honolulu	Hawaii County	Kauai County 1/	Maui County
In Thousands of Dollars					
2005	3,491,964	1,364,030	1,008,386	288,132	831,416
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
2011 1 Qtr.	380,874	262,764	66,539	17,222	34,348
2 Qtr.	438,364	313,380	69,836	16,353	38,795
3 Qtr.	537,695	351,662	97,829	11,838	76,366
4 Qtr.	501,830	345,117	48,433	14,107	94,174
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
Percentage Change From The Same Period in Previous Year					
2005	28.1	3.3	22.0	120.5	85.2
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
2011 1 Qtr.	-16.4	-13.3	-32.7	4.6	-7.5
2 Qtr.	-18.4	-15.5	-30.2	29.8	-27.7
3 Qtr.	-2.7	-12.3	27.2	-45.3	44.2
4 Qtr.	15.3	22.2	-42.7	-18.5	85.1
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

1/ For residential only.
Source: County building departments.

Banks and Other Financial Institutions

As of December 31, 2012, total assets of all State chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at $35.48 billion, a 2.71% increase from December 31, 2011. The five State chartered banks accounted for $35.01 billion of such assets.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy. In 2012, total federal government compensation of employees in Hawaii reached $10.0 billion, an increase of 2.9 percent from 2011. Federal government compensation of employees in Hawaii accounted for about 25.2 percent of total compensation of employees in 2012. Between 2000 and 2012, the annual average growth rate for federal government compensation of employees in Hawaii was 6.9 percent. Federal military accounted for 62.9 percent of the total Federal compensation in 2012. According to the most recent data available, federal government accounted for about 15.3 percent of State GDP in Hawaii in 2011, much of which is defense-related.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in the first quarter of 2013 increased 3.0 percent compared to the same period of 2012. In 2012, total earnings of federal government personnel increased 2.7 percent from the previous year. In 2012, total military earnings and total federal civilian earnings accounted for about 22.9 percent of total earnings in Hawaii.

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.

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 2009, 2010, 2011 and 2012 amounted to 18.3 million short tons, 17.7 million short tons, 18.8 million short tons and 19.0 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 10,033 in fiscal year 2009, 7,832 in fiscal year 2010, 8,490 in fiscal year 2011 and 7,912 in fiscal year 2012. 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 2009, 8.9 million short tons in fiscal year 2010, 9.8 million short tons in 2011 and 10.0 million short tons in fiscal year 2012. 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 Chief Executive Officer for the ATDC.

Air Transportation. The State operates and maintains 15 airports on six islands within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls increasing from 4,579 to 6,379 vehicles as a result of a new parking structure opened in February 2009 at HNL. HNL is the most important in the State airports system. The airfield at Barber's Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

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

In fiscal year 2013, total passenger count increased from 31,232,157 to 32,954,553 due to increased tourism traffic derived from both domestic and overseas passengers. Aircraft operations slightly 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 maintained its financial position thru increases in passenger traffic and concession revenues. In addition, the management of the Airports Division has continued to scrutinize and monitor its expenditures.

The Airports Division's 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. 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 $1.4 billion through 2017 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 Cargo building, to replace the old facility, 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 expects to award contracts for the first phase of the HNL consolidated rental car facility in late 2013, and for the Kahului consolidated rental car facility in early 2014.

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 4,298.103 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 948.19 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, 2012.

Motor Vehicle Registration

Calendar Year	Passenger Vehicles	Ambulances & Hearses	Buses	Trucks	Motorcycles & Scooters	Trailers	Total
2003	830,672	47	2,588	175,517	22,019	26,780	1,057,623
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	29,446	31,601	1,151,691
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

Source: The State of Hawaii Data Book 2012.

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 school system for colleges and universities. In the 2013–2014 school year, system enrollment increased from a total of 183,251 in the 2012–2013 school year to a total of 185,273 in 288 K–12 public schools (includes 33 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. Within the total student count, the number of students in both Department of Education schools and charter schools has increased.

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

(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 2013, 60,292 students attended the University of Hawaii System, 20,437 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, 2012 AND INDEPENDENT AUDITORS' REPORT

(commences on page B-21)

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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, 2013, 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, 2013

General obligation bonds outstanding		$ 5,475,775,000
Less excludable reimbursable general obligation bonds [1]		
Highways	$ 11,731,859	
Harbors	32,933,472	
University of Hawaii	722,413	
Parking facilities	64,309	
Hawaiian Home Lands	119,368	
Subtotal excludable reimbursable general obligation bonds	$ 45,571,421	
Less all general obligation bonds maturing in the current year	$ 335,276,849	$ 380,848,270
Net general obligation bonds outstanding		$ 5,094,926,730

Footnotes on following page.

REVENUE BOND INDEBTEDNESS [2]

As of July 1, 2013

Revenue bonds outstanding:		
Airports:		
Airports system	$ 877,725,000	
Airports special facility	30,100,000	$ 907,825,000
Housing:		
Single family mortgage purchase	83,212,983	
Multifamily	300,484,304	383,697,287
Harbors:		
Revenue		355,450,000
Highway:		
Revenue		382,180,000
University of Hawaii:		
Revenue		608,670,000
Hawaiian Home Lands		39,815,000
Health Systems		9,001,000
Total revenue bonds outstanding		$ 2,686,638,287

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS [3]

As of July 1, 2013

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$ 650,020,000
Utilities serving the general public	639,400,000
Industrial enterprises	11,062,500
Not-for-profit secondary schools, colleges and university serving the general public	27,575,000
Total special purpose revenue bonds outstanding	$ 1,328,057,500

[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, 2013. The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2013, and on the Bonds, after exclusions permitted by the Constitution, is $649,399,252 in the fiscal year ending June 30, 2015, which is within the debt limit of $1,046,943,102.

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	2010-2011	2011-2012	2012-2013
Total General Fund revenues exclusive of grants from the federal government	$5,116,908,466	$5,660,629,181	$6,234,438,652
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	14,262,183	11,828,531	8,429,886
Net General Fund revenues	$5,102,646,283	$5,648,800,650	$6,226,008,766
Sum of net General Fund revenues for preceding three fiscal years	$16,977,455,699		
Average of preceding three fiscal years	$5,659,151,900		
18½% of average net General Fund revenues of the three preceding years ended June 30, 2011, 2012 and 2013	$1,046,943,102		

NOTE: This Summary Statement is based on the July 1, 2013 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, 2013

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds [1]			
From State Special Funds for			
Highways	$ 11,731,859		
Commercial Harbors	$ 32,933,472		
Small Boat Harbors [2]	$ 2,634,992		
Hawaiian Home Lands	$ 119,368		
University of Hawaii	$ 722,413		
Parking Facilities	$ 64,308		
Waiahole Water System [2]	$ 6,630,063		
Convention Center [2]	$ 234,260,289		
Total for Special Funds	$ 289,096,764		
Total Reimbursable General Obligation Bonds		$ 289,096,764	5.28%
Non Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$ 5,186,678,236		
Total Non-reimbursable General Obligation Bonds........		$ 5,186,678,236	94.72%
Total General Obligation Bonds Issued and Outstanding..		$ 5,475,775,000	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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SUMMARY OF DEBT SERVICE

As of October 1, 2013

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, 2013, 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.

							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]
2014	5,409,110,000	273,570,000	210,825,265	484,395,265	31,698,066	452,697,199	0	1,485,439	4,624,493	449,558,144
2015	5,135,540,000	413,960,000	242,818,547	656,778,547	34,709,422	622,069,124	34,515,000	45,548,204	43,164,975	658,967,353
2016	4,721,580,000	408,405,000	222,156,768	630,561,768	33,124,055	597,437,712	58,355,000	37,014,785	64,784,548	628,022,950
2017	4,313,175,000	428,200,000	202,341,084	630,541,084	32,728,343	597,812,741	27,330,000	35,072,660	31,819,701	628,395,700
2018	3,884,975,000	409,695,000	181,014,522	590,709,522	31,485,094	559,224,428	6,460,000	34,392,510	10,255,176	589,821,762
2019	3,475,280,000	385,655,000	163,630,679	549,285,679	30,417,121	518,868,558	36,875,000	33,476,174	10,254,133	578,965,600
2020	3,089,625,000	334,165,000	145,472,267	479,637,267	30,417,931	449,219,335	38,485,000	31,822,608	10,246,545	509,280,398
2021	2,755,460,000	285,370,000	130,334,512	415,704,512	30,420,401	385,284,111	40,205,000	30,054,446	10,249,795	445,293,762
2022	2,470,090,000	301,675,000	116,361,465	418,036,465	30,417,896	387,618,569	42,085,000	28,117,090	10,254,863	447,565,796
2023	2,168,415,000	297,825,000	101,672,187	399,497,187	30,417,213	369,079,973	43,900,000	26,246,149	10,255,170	428,970,952
2024	1,870,590,000	304,080,000	86,878,432	390,958,432	30,417,893	360,540,539	45,805,000	24,276,708	10,248,143	420,374,104
2025	1,566,510,000	276,425,000	73,400,896	349,825,896	30,422,683	319,403,213	39,410,000	22,210,195	0	381,023,408
2026	1,290,085,000	266,375,000	60,648,045	327,023,045	30,424,388	296,598,657	41,310,000	20,231,128	0	358,139,784
2027	1,023,710,000	228,965,000	47,643,799	276,608,799	28,145,958	248,462,840	43,140,000	18,328,098	0	309,930,938
2028	794,745,000	209,775,000	35,945,048	245,720,048	1,365,184	244,354,863	44,885,000	16,505,783	0	305,745,646
2029	584,970,000	187,545,000	25,179,997	212,724,997	428,556	212,296,441	46,900,000	14,411,106	0	273,607,547
2030	397,425,000	143,920,000	15,736,839	159,656,839	429,270	159,227,569	49,200,000	12,030,023	0	220,457,592
2031	253,505,000	104,420,000	8,669,671	113,089,671	430,068	112,659,603	51,620,000	9,525,916	0	173,805,519
2032	149,085,000	109,035,000	4,057,583	113,092,583	430,933	112,661,649	54,125,000	6,930,728	0	173,717,377
2033	40,050,000	40,050,000	797,231	40,847,231	431,788	40,415,443	56,765,000	4,205,291	0	101,385,734
2034	0	0	0	0	334,834	-334,834	59,485,000	1,395,505	0	60,545,671

[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, 2013.

[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 $31,698,066 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2014, only $4,608,486 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, 2013, 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
2008	1,292	4,408,572	22,002	4,386,570	3,395
2009	1,298	4,779,666	68	4,779,598	3,682
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	5,509,959	64	5,509,895	3,958

[1] Source: Hawaii State Department of Business, Economic Development and Tourism.
[2] Source: Hawaii State Department of Accounting and General Services, Accounting Division.
[3] Excludes Enterprise Funds and Component Unit 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.

The Department of Transportation anticipates issuing 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 would be secured by Airports System Revenues, and would 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.

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 August 31, 2013, 12% of the State's investment portfolio and cash in banks consisted of repurchase agreements with banks, 45% consisted of time certificates with banks, 23% consisted of U.S. Federal Agency and Government Sponsored Entity Securities, 17% consisted of U.S. Treasury securities, and 3% consisted of cash in bank accounts. In March 2013, Citigroup Global Markets, Inc. called-in the remaining balance of its outstanding student loan auction rate securities at par, and the State no longer holds any of this investment type in its portfolio.

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, 2013, $3.7 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 0.28%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2008 to 2012. 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, 2012, in Part II of Appendix B.

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

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

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

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BALANCE SHEET OF THE GENERAL FUND
OF THE STATE OF HAWAII
As of June 30
(Amounts in Thousands)

	2008	2009	2010	2011	2012
ASSETS:					
Cash	$ 318,708	$ 97,454	$134,232	$106,420	$ 238,623
Due from other funds	90,886	149,795	149,467	138,352	133,005
Due from Component Units	28,958	38,662	34,916	102,304	29,300
Receivables:					
Taxes	370,055	312,936	123,459	356,975	441,549
Notes	3,834	3,487	3,281	2,906	2,187
Other	5,327	16,084	2,274	10,050	14,047
Total receivables	379,216	332,507	129,014	369,931	457,783
Investments	514,026	75,805	80,448	169,838	286,913
Other Assets	—	—	—	37,144	15,060
TOTAL ASSETS	$1,331,794	$694,223	$528,077	$923,989	$1,160,684
LIABILITIES AND FUND EQUITY:					
Liabilities:					
Vouchers payable	$ 129,527	$ 95,151	$112,010	$100,685	$ 115,379
Other accrued liabilities	150,293	349,997	342,001	219,554	213,900
Due to other funds	42	22,068	12,718	109	64
Due to Component Units	54,243	25,973	10,182	1,261	1,563
Deferred revenue	23,331	16,014	18,232	45,334	22,340
Total liabilities	$ 357,436	$509,203	$495,143	$366,943	$ 353,246
FUND EQUITY:					
Reserves:					
Unrealized receivables	$ 3,834	$ 3,487	$ 3,281	N/A	N/A
Encumbrances	384,520	250,190	222,865	N/A	N/A
Unencumbered allotments	18,530	18,880	17,339	N/A	N/A
Total reserves	$ 406,884	$272,557	$243,485	N/A	N/A
Unreserved fund balance:					
Designated for future expenditures	$ 103,557	—	—	N/A	N/A
Undesignated	463,917	(87,537)	(210,551)	N/A	N/A
Total fund equity	$ 974,358	$185,020	$ 32,934	N/A	N/A
Restricted	N/A	N/A	N/A	—	—
Committed	N/A	N/A	N/A	—	—
Assigned	N/A	N/A	N/A	210,164	236,779
Unassigned	N/A	N/A	N/A	346,882	570,659
Total fund balances*	N/A	N/A	N/A	$557,046	$ 807,438
TOTAL LIABILITIES AND FUND EQUITY	$1,331,794	$694,223	$528,077	$923,989	$1,160,684

*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)

	2007-2008	% of Total	2008-2009	% of Total	2009-2010	% of Total	2010-2011	% of Total	2011-2012	% of Total
REVENUES:										
General excise tax.	$2,597,121	53.59	$2,410,756	55.09	$2,279,310	51.37	$2,507,980	50.89	$2,774,636	52.32
Income tax-corporation	88,713	1.83	51,875	1.19	57,394	1.29	44,143	0.90	81,179	1.53
Income tax-individual	1,548,552	31.96	1,322,018	30.21	1,351,571	30.46	1,429,045	29.00	1,552,233	29.27
Service companies tax	127,481	2.63	126,069	2.88	157,661	3.55	117,940	2.39	150,528	2.84
Liquor licenses and taxes	45,620	0.94	47,243	1.08	44,074	0.99	48,053	0.98	48,854	0.92
Tobacco licenses and taxes	83,443	1.72	76,955	1.76	85,502	1.93	106,137	2.15	102,853	1.94
Insurance premiums tax	94,587	1.95	93,720	2.14	104,667	2.36	139,090	2.82	117,617	2.22
Rental motor/tour vehicle surcharge tax	0	0.00	0	0.00	0	0.00	0	0.00	61,430	1.16
Inheritance and estate tax	164	0.00	274	0.01	0	0.00	6,900	0.14	14,124	0.27
Banks and financial corporation tax.	18,213	0.38	26,075	0.60	18,666	0.42	31,682	0.64	5,229	0.10
Environmental response tax	0	0.00	0	0.00	0	0.00	13,995	0.28	15,776	0.30
Transient accommodations tax *	15,756	0.33	13,408	0.31	31,635	0.71	59,839	1.21	137,529	2.59
Conveyance tax	6,156	0.13	8,768	0.20	17,918	0.40	22,706	0.46	17,899	0.34
Total Taxes	4,625,806	95.46	4,177,161	95.47	4,148,398	93.48	4,527,510	91.86	5,079,887	95.80
Charges for current services and other revenues	220,089	4.54	198,947	4.53	288,401	6.52	400,594	8.14	223,724	4.20
TOTAL REVENUES	$4,845,895	100.00	$4,376,108	100.00	$4,436,799	100.00	$4,928,104	100.00	$5,303,611	100.00
EXPENDITURES:										
General government	$ 407,147	8.51	$ 421,408	8.51	$344,110	8.14	$353,124	8.50	$369,664	7.99
Public safety	280,962	5.87	287,883	5.82	294,576	6.97	259,086	6.24	316,863	6.85
Conservation of natural resources	46,489	0.97	56,813	1.15	35,390	0.84	28,119	0.68	26,290	0.57
Health	573,929	11.99	545,854	11.03	503,625	11.92	461,894	11.12	484,543	10.48
Welfare	744,547	15.56	669,612	13.53	712,900	16.87	761,208	18.32	1,019,919	22.05
Education:										
Higher	697,333	14.57	735,348	14.86	525,446	12.43	502,424	12.09	535,457	11.58
Lower and others	1,889,035	39.47	2,121,087	42.86	1,725,192	40.82	1,699,828	40.91	1,782,369	38.54
Culture-recreation	53,805	1.12	45,576	0.92	35,884	0.85	38,682	0.93	39,144	0.85
Urban redevelopment and housing.	52,035	1.09	22,619	0.46	20,386	0.48	82	0.00	108	0.00
Economic development & assistance	39,752	0.83	41,305	0.83	28,269	0.67	43,755	1.05	24,141	0.52
Other	528	0.02	1,909	0.03	114	0.01	6,722	0.16	26,250	0.57
TOTAL EXPENDITURES	$4,785,562	100.00	$4,949,414	100.00	$4,225,892	100.00	$4,154,924	100.00	$4,624,748	100.00
OTHER FINANCING SOURCES (USES):										
Transfers in	37,470	-	114,963	-	16,586	-	126,695	-	53,497	-
Transfers out	(438,530)	-	(361,534)	-	(382,767)	-	(413,652)	-	(591,053)	-
Other	18,875	-	30,539	-	3,188	-	37,889	-	109,085	-
TOTAL OTHER FINANCING SOURCES (USES)	$ (382,185)	-	$ (216,032)	-	$ (362,993)	-	$ (249,068)	-	$ (428,471)	-

*Act 156, SLH 1998 distributed the Transient Accommodations Tax ("TAT") revenues: 44.8% to the counties, 17.3% to the Convention Center Special Fund and 37.9% to the Tourism Special Fund. On June 30, 2000, the Convention Center Capital and Operations Special Fund ceased to exist, leaving the 17.3% Convention Center share to be distributed to the General Fund. On July 1, 2002, Act 253, SLH 2002 redirected these deposits to a Convention Center Special Fund; provided that beginning January 1, 2002 TAT Convention Center Special Fund revenues in excess of $31 million a calendar year shall be deposited into the General Fund. Act 250, SLH 2002 redirected a portion of the Tourism Special Fund deposits to other tourism-related special funds as follows: 5.3% to the Trust Fund and 32.6% to the Tourism Special Fund; provided that beginning on July 1, 2002 the TAT collected for the Tourism Special Fund in excess of $62.292 million for the fiscal year shall be deposited into the following funds: 90% of the first $1 million shall be deposited into the state parks special fund, 10% of the first $1 million shall be deposited into the Hawaii statewide trail and access program; provided that the total amount deposited into the state parks special fund and to the Hawaii statewide trail and access program shall not exceed $1 million in any fiscal year. Act 113, SLH 2003, Section 2(b)(2)(A) redirected the TAT: from the first $1 million in revenues deposited in excess of $62.292 million, 10% of the first $1 million shall be deposited into the special land and development fund; provided that the total amount deposited into the state parks special fund and to the special land and development fund for the Hawaii statewide trail and access program shall not exceed $1 million in any fiscal year. Act 235, SLH 2005 increases allocation to the Tourism Special Fund to 34.2% and repeals TAT trust fund, effective July 1, 2007. Act 209, SLH 2006, increases ceiling on allocation to the convention center enterprise fund to $33 million, effective on July 1, 2006. 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, SLH2009 authorizing the increase in taxes is set to repeal on June 30, 2015. Act 171, SLH 2012 changed the maximum amount deposited into the Tourism Special Fund to $71 million beginning on July 1, 2012 and ending on June 30, 2015 provided that $2 million shall be expended for the development and implementation of initiatives to take advantage of expanded visa programs and increased travel opportunities for international visitors to Hawaii. Act 243, SLH 2012 amends the provision that revenues in excess of $33 million deposited to the convention center enterprise fund in any calendar year be deposited to the General Fund to be for any fiscal year. Act 161, SLH2013, effective July 1, 2013, amended the TAT revenue distribution from a percentage of revenues collected to annual amounts of $33,000,000 to the convention center enterprise special fund, $82,000,000 to the Tourism Special Fund and $93,000,000 to the counties and made permanent the transient accommodations tax rate of 9.25%.

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 2012.

In September 2012, the Council lowered its growth rate for fiscal year 2013 from 5.3% to 4.9%, for fiscal year 2014 from 4.0% to 3.9%, for fiscal year 2015 from 6.2% to 5.0%, for fiscal year 2016 from 4.0% to 1.2% and for fiscal year 2017 from 5.0% to 4.2%. The Council increased its growth rate for fiscal year 2018 from 5.0% to 5.1%. The decreases were primarily due to a reassessment of the impact of the renewable energy tax credits. The Council was also concerned about the European economies and the future of the Honolulu rail project and its impact on the construction industry.

In January 2013, the Council raised its growth rate for fiscal year 2013 from 4.9% to 5.1%, for fiscal year 2014 from 3.9% to 6.8%, for fiscal year 2015 from 5.0% to 6.2%, for fiscal year 2016 from 1.2% to 1.4% and made minor or no changes for the remaining fiscal years. The increases were based on a strong visitor industry and expected growth in the rest of the economy and reduced estimates of the impact of the renewable energy income tax credits. The Council also cited uncertainties in the future growth path of tax collections due to uncertainties in the size of future claims for the renewable energy tax credits, the impact of tax law changes made by the 2011 Legislature and the impact of future federal spending cuts.

In March 2013, the Council raised its growth rate for fiscal year 2013 from 5.1% to 6.7%, for fiscal year 2014 from 6.8% to 7.3% and for fiscal year 2015 from 6.2% to 6.8% while keeping the growth rates for the remaining years unchanged. The increases reflected the expected continuation of the strong visitor industry and growth in the rest of the economy.

In May 2013, the Council maintained its growth rate of 6.7% for fiscal year 2013, raised its growth rate for fiscal year 2014 from 7.3% to 8.0% and for fiscal year 2015 from 6.8% to 7.0%, and kept the growth rates for the remaining fiscal years basically unchanged. The increases were due to the expected increased activity in the construction industry.

For fiscal year 2013, actual General Fund tax revenues increased by 9.9% (as reported by the Council), as compared to the Council's projection of 6.7%.

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 appears to be slowing, the construction industry remains strong and the Council is projecting 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 are 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, contributes 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 contributes to the expected increase in revenues.

The Council's next report is due January 10, 2014. 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 the revenue projections of certain tax collections and expenditures. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the State's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the projected course of action and the projected future financial performance of the State. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

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

General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for fiscal year 2012, preliminary actuals for fiscal year 2013 and estimates for fiscal years 2014 through 2018. 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, "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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GENERAL FUND FINANCIAL PLAN 2012 - 2018[1]
(Amounts in Millions of Dollars)

	Actual FY 12	Preliminary Actual FY 13	Estimated FY 14	Estimated FY 15	Estimated FY 16	Estimated FY 17	Estimated FY 18
REVENUES							
Executive Branch:							
Tax revenues[2, 3]	$4,972.5	$5,468.3	$5,690.9	$6,114.9	$6,587.7	$6,962.7	$7,388.6
Nontax revenues[2, 3]	651.0	730.5	520.2	523.2	517.5	523.5	526.9
Judicial Branch Revenues[2, 3]	37.2	35.7	38.7	39.3	40.0	40.7	41.4
Other Revenue Sources / Adjustments[4]			0.3	0.3	1.3	0.3	0.3
TOTAL REVENUES	$5,660.6	$6,234.4	$6,250.1	$6,677.6	$7,146.5	$7,527.2	$7,957.2
EXPENDITURES							
Executive Branch:							
Operating	$5,443.5	$5,597.9	$6,014.3	$6,188.9	$6,367.5	$6 ,644.6	$6 649.4
Capital Investment							
Specific appropriations	30.5	77.9	220.6	165.1	193.4	229.1	235.4
Other[5]			41.5	542.5	373.7	488.9	599.6
Subtotal - Executive Branch	5,474.0	5,675.8	6,276.4	6,896.5	6,934.6	7,362.6	7,484.5
Legislative Branch	32.2	32.3	33.2	33.8	33.8	33.8	33.8
Judicial Branch	132.7	135.0	148.3	150.5	150.5	150.5	150.5
OHA and counties	2.4	4.7	3.1	2.7	2.7	2.7	2.7
Appropriation Lapses[6]	(129.9)	(182.1)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	$5,511.3	$5,665.7	$6,396.1	$7,018.6	$7,056.7	$7,484.7	$7,606.6
REVENUES OVER EXPENDITURES	149.3	568.8	(145.9)	(341.0)	89.8	42.5	350.6
CARRY-OVER BALANCE							
Beginning Balance	126.0	275.3	844.0	698.1	357.1	446.9	489.3
Ending Balance	275.3	844.0	698.1	357.1	446.9	489.3	839.9

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 2012 and 2013 revenue collections as reported by the Department of Accounting and General Services.*

3 *Reflects fiscal year 2014 –2018 Council on Revenues' September 2013 projections.*

4 *Reflects other revenue sources and adjustments: the repayment of $1 million in FY 16 for the start-up appropriation to the Boiler and Elevator Special Fund (Act 103, SLH 2012) and additional revenues of $300,000 per year as a result of a new fee for obtaining a certified copy of a tax clearance (Act 180, SLH 2012).*

5 *Includes collective bargaining costs set aside for bargaining units that have not reached settlement, additional OPEB prefunding costs, federal funds supplanting, additional EBRF and HHRF recapitalization costs and Governor's priority items, including converting funding of repair and maintenance projects from general obligation bonds to general funds and additional general-funded repair and maintenance projects.*

6 *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.*

Note: Reflects the FB 2013-2015 Executive Budget as authorized by Act 134, SLH 2013. Totals may not add due to rounding.

Sources: Department of Accounting and General Services; Department of Budget and Finance, September 2013.

The preceding General Fund financial plan is based on revised revenue projections reported by the Council on Revenues on September 10, 2013, that also incorporates revenue decreases due to: the expiration on December 31, 2015 of top income tax brackets for high income taxpayers and caps on itemized deductions; the expiration at the end of fiscal year 2013 of the elimination of certain general excise tax exemptions and deductions; the transfer in fiscal years 2014 and 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 elimination of the general excise tax exemption for liquor, tobacco and food sold to common carriers and the continuation of the transient accommodations tax rate of 9.25% beyond fiscal year 2015. For purposes of developing the State budget, debt service on Build America Bonds of the State 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 2013-2015 Executive Budget and proposed budget adjustments for unfunded and underfunded items in the second year of the biennium and revised estimates for health insurance and retirement benefit payments. In addition, the financial plan includes proposed additional OPEB prefunding costs, additional recapitalization of the EBRF and HHRF, conversion of the funding of repair and maintenance projects from general obligation bonds to general funds, additional repair and maintenance projects funded by general funds, collective bargaining costs for bargaining units that have not reached settlement, supplanting of federal funds and other Governor's priority item costs.

The State is in the process of developing and preparing its supplemental budgets for the fiscal year ending June 30, 2015 for the Executive and Judicial Branches and the Office of Hawaiian Affairs. These budgets are to be submitted to the 27th Hawaii State Legislature, which convenes on January 15, 2014, for deliberation 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 herewith.

In the General Fund financial plan, fiscal year revenues are recognized based on receipt while fiscal year expenditures are recognized when appropriations are expended or encumbered in that year. At the end of the fiscal year, encumbrances are not lapsed but are considered to be expenditures. Additionally, the Department of Education, by law, is allowed to retain 5% of its appropriations up to one year into the next fiscal biennium. For example, $28.4 million carried over from fiscal year 2013 to fiscal year 2014 by the Department of Education did not lapse and was considered to be expended in fiscal year 2013.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2013, 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, 2012 and June 30, 2013, and estimated tax revenues for the fiscal years ending June 30, 2014 and June 30, 2015 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, 2013 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)

General Fund Tax Revenues

Thousands of dollars

	Actual* 2011-2012	**Actual* 2012-2013**	**Estimated 2013-2014**	**Estimated 2014-2015**
General Excise and Use	$2,697,951	$2,944,487	$3,021,193	$3,261,508
Income—Individual	1,540,604	1,735,499	1,890,539	2,033,010
Income—Corporation	73,027	100,988	79,335	81,011
Public Service Company	150,528	163,930	169,432	175,398
Insurance Premiums	117,617	131,906	138,809	145,186
Tobacco & Licenses	102,853	94,180	81,115	83,883
Liquor & Permits	48,854	48,962	49,709	50,441
Banks & Other Financial Corp.	5,229	20,673	23,147	23,504
Inheritance and Estate Tax	14,125	14,886	15,158	15,449
Conveyance	18,917	19,132	20,459	21,692
Transient Accommodation Tax	126,302	171,556	183,363	205,099
Miscellaneous	77,888	20,725	18,682	18,686
TOTAL BEFORE ADJUSTMENTS	$4,973,895	$5,466,923	$5,690,941	$6,114,867
GROWTH RATE	14.90%	9.90%	4.10%	7.45%

Sources: Actual collections are from Tax Research and Planning reports. Estimates are from the Council on Revenues' report dated September 10, 2013 and line item projections prepared by the Department of Taxation. The following figures for fiscal year 2012 have been revised: the "Miscellaneous" category was revised to exclude insurance fees, the "Income—Individual" category was revised to account for changes in campaign contributions, and the category "Insurance Premiums" was revised to account for certain adjustments to the tax on insurance premiums.

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*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 2012 and 2013 reported by the State Director of Taxation. The collections from all sources for fiscal year 2013 amounted to $6.5 billion. This represents an 8.9% increase from the previous fiscal year.

	Fiscal Year Ended 6/30	
	2013	**2012**
State Tax Collections—Source of Revenue	(Thousands of Dollars)	
Banks/Financial corporations[1]	$ 22,673	$ 7,229
Conveyances[1]	54,686	42,106
Employment security contributions	262,290	231,669
Fuel	193,949	193,101
General excise, license and registration fees	484	516
General excise and use[2]	2,944,487	2,697,951
Honolulu County Surcharge[3]	193,136	211,850
Income—corporations:		
Declaration of estimated taxes	138,349	125,383
Payment with returns	20,586	48,494
Refunds	-57,947	-100,851
Income—individuals[1]:		
Declaration of estimated taxes	466,936	364,470
Payment with returns	149,277	129,671
Withholding tax on wages	1,562,326	1,459,769
Refunds	-442,532	-412,859
Inheritance and estate	14,886	14,125
Insurance premiums[4]	131,906	117,617
Liquor and permits	48,962	48,854
Motor Vehicle Tax/Fees, Etc. [5]	176,295	211,742
Public Service companies	163,930	150,528
Tobacco and licenses[1]	127,881	138,798
Transient Accommodations Fees/Time Share Occupation fees	20	11
Transient Accommodations Tax/Time Share Occupation Tax[1]	368,556	323,940
All other [6]	164	156
TOTAL	$6,541,300	$6,004,268

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 The figure for FY 2012 has been revised, including a revision to remove insurance fees that were dedicated to the General Fund.

5 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.

6 Includes fuel retail dealer permits, penalties and interest on fuel tax, and permitted transfers.

	Fiscal Year Ended 6/30	
	2013	**2012**
State Tax Collections—Distribution	(Thousands of Dollars)	
State General Fund	$5,466,923	$4,973,896
State Highway Fund	257,801	237,542
State Airport Fund	4,707	4,353
Boating Special Fund	1,621	1,611
Environmental Fund	1,295	1,315
Cigarette Stamp Administrative Fund	256	271
Cigarette Stamp Enforcement Fund	1,892	2,019
Compliance Resolution Fund	2,000	2,000
Election Campaign Fund	219	141
Employment Security Fund	262,290	231,669
Rental Housing Fund	16,409	10,540
Natural Area Reserve Fund	13,675	8,432
Convention Center Enterprise Fund	33,000	35,637
Land Conservation Fund	5,470	4,216
Tourism Special Fund	71,000	69,000
School Minor Repairs and Maintenance Fund	74	77
Public Libraries Fund	68	73
Domestic Violence/Child Abuse Neglect Funds	147	154
Cancer Research Fund	15,777	16,828
Trauma System Fund	5,919	6,312
Emergency Medical Service Fund	3,938	4,203
Community Health Centers Fund	5,919	6,312
Energy Security Fund	3,884	3,944
Energy Systems Development Fund	2,590	2,629
Agricultural Development & Food Security Fund	3,884	3,944
Subtotal	6,180,756	5,627,120
Honolulu County Surcharge	193,136	211,850
Distributions to Counties*:		
Fuel tax	74,407	72,297
Transient Accommodation Tax	93,000	93,000
Counties Total	167,407	165,297
TOTAL	$6,541,300	$6,004,268

*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

* 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.

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Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2011 and 2012 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2011 and 2012
(Includes all counties)

ASSETS	2012	2011[1]
Total current assets	$12,242,493,808	$11,942,753,360
Present value of future employee contributions	1,620,818,198	1,610,447,797
Present value of future employer normal cost contributions	1,813,266,375	1,863,531,307
Unfunded actuarial accrued liability	8,440,909,010	8,154,177,009
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	24,117,487,391	$23,570,909,472
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	10,707,191,513	10,183,713,229
Present value of future benefits to active employees and inactive members	13,410,295,878	13,387,196,243
TOTAL LIABILITIES	$24,117,487,391	$23,570,909,472

Source: Gabriel, Roeder, Smith & Company.
[1] Figures reflect assumption changes effective June 30, 2011.

As of June 30, 2012, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $8.441 billion. The System's funded ratios — assets divided by the actuarial accrued liability — decreased during fiscal year 2012 as shown below:

FUNDED RATIOS

June 30, 2011[1]	June 30, 2012
59.4%	59.2%

[1] Figures reflect assumption changes effective June 30, 2011.

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PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2012 AND INDEPENDENT AUDITORS' REPORT

Following is the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012 ("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 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.

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STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

DEAN H. SEKI
COMPTROLLER

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HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2012

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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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2012

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.

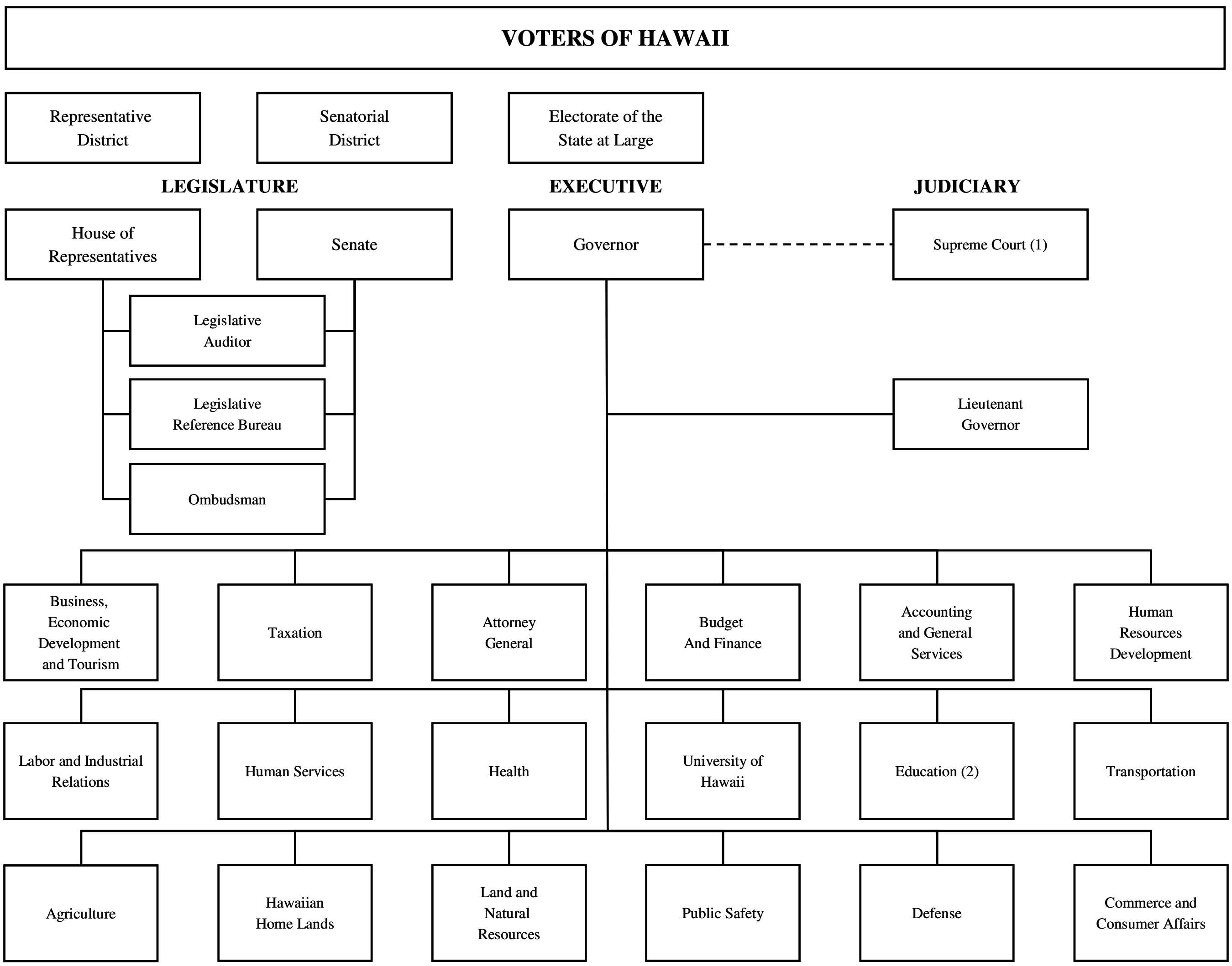
The Comptroller is also department head of the Department of Accounting and General Services.

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, 2012



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

(2) The Board of Education is appointed by the Governor.

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 23, 2013

To the Honorable Governor of the State of Hawaii
To the Honorable Members of the Twenty-Seventh 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, 2012. 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 2012, Hawaii's economic indicators for the tourism industry, tax revenues, the construction industry, and unemployment were all positive. The civilian labor force decreased while total wage and salary jobs increased.

Labor

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 eighth consecutive quarter. During the first nine months of 2012, Hawaii's total civilian employment averaged 610,250 persons, a decrease of 6,200 persons or 1.0% over the same period in 2011. The number of wage and salary jobs was up 7,800 to 604,300 for an increase of 1.3%. Job increases were most notable in food services & drinking places (2,850), accommodation (2,250), retail trade (1,200), and transportation, warehousing & utilities (1,050). A few sectors experienced declines including government (350), agriculture wage & salary jobs (350), information (350), and other services (350). Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 6.2% for the first nine months of 2012, compared to 6.8% for the same period in 2011.

Taxes

Tax revenues distributed to the State's General Fund increased $441.4 million, or 12.5%, during the first nine months of 2012 compared to the same period in 2011. All components reflected an increase during this same period. Individual net income tax collections increased $120.5 million or 11.0%, general excise and use tax (GET) collections increased $193.2 million, or 9.9%, and transient accommodations tax (TAT) collections were up $31.0 million, or 13.3%.

Personal Income

Total nominal personal income, not adjusted for inflation, increased $3.5 billion, or 3.0% in the first half of 2012 compared to the same period in 2011. Among its components, the fastest growth was seen in proprietors' income of 4.9%, supplements to wages and salaries of 4.2%, and wages and salary disbursements of 2.7%. Contributions for government social insurance, which are subtracted from personal income, decreased by 3.5%.

Prices

Honolulu's consumer price index (CPI) increased 2.8% for the first half of 2012 compared to the same period in 2011, higher than the 2.3% United States (U.S.) average CPI-U increase. The Honolulu increase was primarily due to increases in food and beverage (4.5%), education and communication (4.1%), and medical care (3.7%). The prices also increased for recreation (2.6%), apparel (2.4%), housing (2.3%), transportation (2.1%), and other goods and services (1.1%).

Recent Developments in Hawaii's Major Industries

Visitor Industry

In the first nine months of 2012, total visitor arrivals by air increased 492,542 or 9.2% compared to the same period of 2011. Domestic arrivals (visitors on flights originating inside of the U.S.) increased 4.7% while international arrivals increased 20.6%. Similarly, total visitor days (visitor arrivals multiplied by average length of stay) were up 9.0% in the first nine months of 2012 compared to the same period of 2011 and total visitor spending increased $1.7 billion or 19.4% over the same period. Statewide hotel occupancy rate averaged 77.8% in the first nine months of 2012, 4.0% higher than the average rate during the same period of 2011.

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 2012, the construction sector gained 400 jobs or 1.4% compared with the same quarter of 2011. During the first nine months of 2012, construction jobs decreased by 200 or 0.7% compared to the same period of 2011. The total value of new private building authorizations increased $530.8 million or 39.1% for the first nine months of 2012 compared to the same period of 2011.

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 2012 and into 2013. 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 Japan, Thailand, Australia and New Zealand. The August 2012 Blue Chip Economic Consensus Forecasts expected real GDP growth in 2013 to increase 2.1% for the U.S. and 1.6% for Japan.

In 2013, visitor arrivals, visitor days, and visitor expenditures are predicted to increase 3.9%, 3.7%, and 5.2%, respectively.

DBEDT projects total non-agricultural wage and salary jobs to increase 2.0% in 2013. Real Personal Income is expected to increase 2.3% in 2013 with real GDP projected to increase 2.4% in 2013.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.4% in 2013. The State GDP deflator is expected to grow 2.3% in 2013.

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 2011 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.

RISK MANAGEMENT

The State has insurance policies with a variety of insurers for property coverage for its buildings, contents and equipment. The coverage includes loss from fire, boiler & machinery, terrorism coverage, as well as windstorm, flood, tsunami and earthquake damage. The State also purchases excess liability insurance, medical insurance, faithful performance of duty, and depositors & forgery insurance for state employees, but is self-insured for other perils, including workers' compensation and automobile losses. Expenditures for workers' compensation, automobile losses, and general liability (for amounts not covered by insurance) are appropriated annually.

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. There are 13 bargaining units, of which 12 bargaining units have state employees as members. Eight of the twelve bargaining units have contractual agreements to June 30, 2012. The remaining four bargaining units are currently engaged in the collective bargaining process with the employer.

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, 2012. The independent auditors' report has been included in Part II of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) last 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, 2008. This was the twentieth consecutive year that the State has received this prestigious award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year.

The Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011 did not receive the Certificate of Achievement because of its late issuance. We believe our report otherwise met the certificate's requirements and intend to submit future reports to the GFOA to determine eligibility for the 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

MARIA E. ZIELINSKI
Deputy Comptroller, State of Hawaii

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PART II: FINANCIAL SECTION

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Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2012, which collectively comprise the State of Hawaii's basic financial statements (pages 32–110) as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Hawaii's management. 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	97	57
Aggregate Discretely Presented Component Units	100	100
Fiduciary Funds	54	6

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Hawaii's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2012, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 13-30), Schedule of Revenue and Expenditures – Budget and Actual (pages 113-116 and 124-130), and Schedules of Funding Progress (page 117) 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.

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 120–123 and 131–137), introductory section (pages 1-7) and statistical section (pages 139-158) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the State of Hawaii's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and 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 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, the combining and individual fund statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken 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 by us or other auditors, and accordingly, we do not express an opinion or provide any assurance on them.

Deloitte + Touche LLP

January 23, 2013

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, 2012. 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, 2012 by $4.5 billion (net assets). Unrestricted net assets which may be used to meet the State's ongoing obligations to citizens and creditors was a negative $1.7 billion, an increase of $59.5 million from the previous year. Net assets of governmental activities and business-type activities decreased by $529.9 million and increased by $163.5 million, respectively. The combined decrease to the State was $366.4 million from the prior fiscal year.

Fund Highlights

At June 30, 2012, the State's Governmental Funds reported combined ending fund balances of $1.4 billion, an increase of $698.4 million from the prior fiscal year. Of this amount, $807.4 million, or 55.7%, of total fund balances was in the General Fund, and the remaining $642.4 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net assets at June 30, 2012, of $3.2 billion, an increase of $163.5 million during the fiscal year.

Liabilities

The State's liabilities increased during the current fiscal year to $12.2 billion, an increase of $1.1 billion. During fiscal 2012, the State issued General Obligations bonds in the amount of $486.2 million to advance refund $512.5 million of previously issued outstanding General Obligation bonds. In addition, the State issued $800 million in General Obligation bonds for the purpose of financing capital projects. The Department of Transportation issued $5.1 million in Highways Revenue bonds to advance refund $5.4 million in previously issued outstanding Highways Revenue bonds and $112.3 million for the purpose of financing highways capital projects. The Department of Transportation issued $300.9 million in Airports Revenue bonds to advance refund $322.7 million in previously issued outstanding Airports Revenue bonds.

In accordance with GASB No. 45, the State increased the liability for *Postemployment Benefits Other Than Pension,* to $2.6 billion, an increase of $568.3 million for the fiscal year ended June 30, 2012.

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which 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 35–37 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 39–43 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 44 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 52–110 of this report.

Other Supplementary Information

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

Government-Wide Financial Analysis

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

Net assets is a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $4.5 billion as of June 30, 2012, and net assets decreased $366.4 million, or 7.5%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by $529.9 million, or 28.5%, and business-type activities had an increase of $163.5 million, or 5.4%. The following table was derived from the Government-Wide Statement of Net Assets.

Summary Schedule of Net Assets

June 30, 2012 and 2011
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	$ 3,001,480	$ 2,422,652	$ 2,369,460	$ 2,312,526	$ 5,370,940	$ 4,735,178
Capital assets, net	8,833,349	8,792,934	2,473,197	2,409,685	11,306,546	11,202,619
Total assets	11,834,829	11,215,586	4,842,657	4,722,211	16,677,486	15,937,797
Liabilities:						
Long-term liabilities	8,952,869	7,811,543	1,518,782	1,508,606	10,471,651	9,320,149
Other liabilities	1,552,059	1,544,255	147,983	201,192	1,700,042	1,745,447
Total liabilities	10,504,928	9,355,798	1,666,765	1,709,798	12,171,693	11,065,596
Net assets:						
Invested in capital assets, net of related debt	2,794,481	3,326,245	1,560,267	1,476,136	4,354,748	4,802,381
Restricted	930,294	917,730	966,042	956,894	1,896,336	1,874,624
Unrestricted	(2,394,874)	(2,384,187)	649,583	579,383	(1,745,291)	(1,804,804)
Total net assets	$ 1,329,901	$ 1,859,788	$ 3,175,892	$ 3,012,413	$ 4,505,793	$ 4,872,201

Analysis of Net Assets

By far, the largest portion of the State's net assets ($4.4 billion or 96.6%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets ($1.9 billion or 42.1%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative $1.7 billion or negative 38.7% represents unrestricted net assets.

At June 30, 2012, the State is able to report positive balances in two of the categories of net assets for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net assets for governmental activities is primarily attributed to the State's other postemployment benefit liability of $2.6 billion.

Changes in Net Assets

The State's net assets decreased by $366.4 million, or 7.5%, during the fiscal year ended June 30, 2012. Approximately 56.5% of the State's total revenues came from taxes, while 26.9% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 16.6% 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 unemployment compensation.

STATE OF HAWAII

Management's Discussion and Analysis ("Unaudited")

June 30, 2012

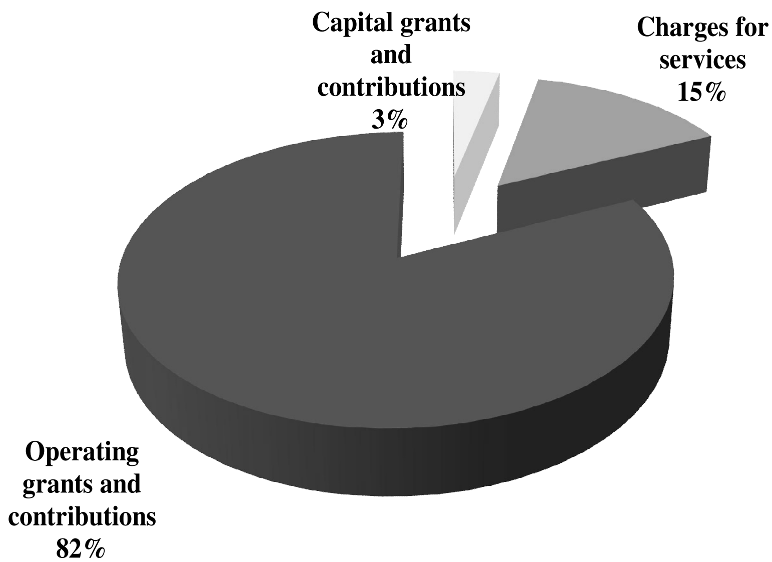
The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011
(Amounts in thousands)

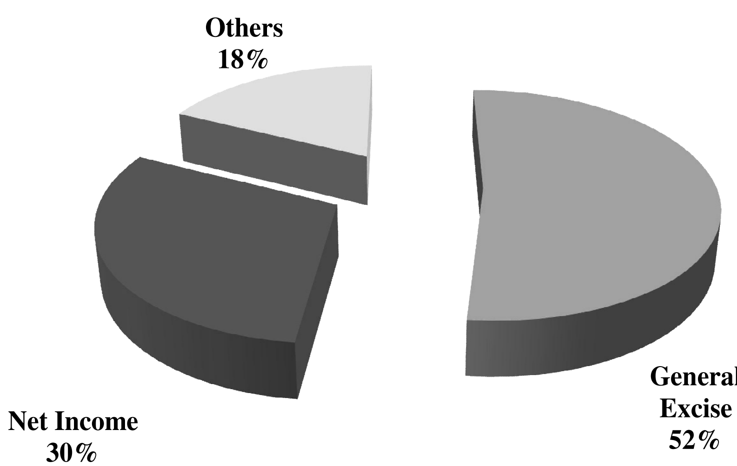
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 421,145	$ 428,772	$ 1,149,559	$ 1,264,434	$ 1,570,704	$ 1,693,206
Operating grants and contributions	2,370,437	2,837,464	-	-	2,370,437	2,837,464
Capital grants and contributions	97,322	132,825	85,899	75,324	183,221	208,149
General revenues:						
Taxes	5,358,622	4,774,934	-	-	5,358,622	4,774,934
Interest and investment income	5,347	55,852	4,164	33,587	9,511	89,439
Total revenues	8,252,873	8,229,847	1,239,622	1,373,345	9,492,495	9,603,192
Expenses:						
General government	552,788	535,434	-	-	552,788	535,434
Public safety	502,002	471,459	-	-	502,002	471,459
Highways	516,924	450,548	-	-	516,924	450,548
Conservation of natural resources	96,349	89,021	-	-	96,349	89,021
Health	773,288	816,525	-	-	773,288	816,525
Welfare	2,464,582	2,553,829	-	-	2,464,582	2,553,829
Lower education	2,598,444	2,545,980	-	-	2,598,444	2,545,980
Higher education	672,716	707,381	-	-	672,716	707,381
Other education	16,753	14,018	-	-	16,753	14,018
Culture and recreation	111,628	108,697	-	-	111,628	108,697
Urban redevelopment and housing	23,888	66,144	-	-	23,888	66,144
Economic development and assistance	209,460	238,315	-	-	209,460	238,315
Interest expense	243,938	239,836	-	-	243,938	239,836
Airports	-	-	353,541	354,368	353,541	354,368
Harbors	-	-	84,826	80,355	84,826	80,355
Unemployment compensation	-	-	468,610	561,548	468,610	561,548
Nonmajor proprietary fund	-	-	169,166	250,346	169,166	250,346
Total expenses	8,782,760	8,837,187	1,076,143	1,246,617	9,858,903	10,083,804
Change in net assets	(529,887)	(607,340)	163,479	126,728	(366,408)	(480,612)
Net assets – beginning of year	1,859,788	2,467,128	3,012,413	2,885,685	4,872,201	5,352,813
Net assets – end of year	$ 1,329,901	$ 1,859,788	$ 3,175,892	$ 3,012,413	$ 4,505,793	$ 4,872,201

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

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2012



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2012



Analysis of Changes in Net Assets

The State's net assets decreased by $366.4 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 assets of governmental activities of $529.9 million offset by increases in net assets of Unemployment Compensation Fund of $66.0 million, Airports of $41.6 million, Harbors of $38.8 million, and Nonmajor Proprietary Funds of $17.0 million.

STATE OF HAWAII

Management's Discussion and Analysis ("Unaudited")

June 30, 2012

Governmental Activities

Governmental activities decreased the State's net assets by $529.9 million. The elements of this decrease are reflected below:

	Governmental Activities (Amounts in thousands)	
	2012	**2011**
General revenues:		
Taxes	$ 5,358,622	$ 4,774,934
Interest and investment income and other	5,347	55,852
Total general revenues	5,363,969	4,830,786
Expenses, net of program revenues:		
General government	38,688	(239,420)
Public safety	463,945	440,026
Highways	351,757	260,142
Conservation of natural resources	36,699	22,043
Health	573,125	604,013
Welfare	1,003,240	829,081
Lower education	2,216,887	2,241,881
Higher education	672,716	707,381
Other education	16,753	14,018
Culture and recreation	108,859	106,539
Urban redevelopment and housing	(9,402)	17,664
Economic development and assistance	176,651	194,922
Interest expense	243,938	239,836
Total governmental activities expenses, net of program revenues	5,893,856	5,438,126
Decrease in governmental activities net assets	$ (529,887)	$ (607,340)

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Tax revenues increased by $583.7 million, or 12.2%, from the previous fiscal year. The increase was primarily due to increases in general excise taxes of $266.7 million, in individual and corporate income taxes of $155.5 million, and in transient accommodations taxes of $77.7 million.

Interest and investment income decreased by $50.5 million from the previous year. The decrease is primarily due to the decrease in the fair market value of the student loan auction rate securities, which decreased $4.7 million in fiscal year 2012, compared to increasing $43.2 million in fiscal year 2011.

General government net expenses increased $278.1 million, or 116.2%, from the previous fiscal year. The increase is primarily attributed to a decrease of $92.5 million in federal stimulus funds received for educational programs and the $111 million cash transfer from the Hawaii Hurricane Relief fund in fiscal 2011.

Highway net expense increased by $91.6 million or 35.2% from the previous year due mainly to increase spending on highway repairs and maintenance.

Welfare net expenses increased $174.2 million or 21.0%. This change is primarily due to increased general funds appropriated for the medical assistance programs and general support programs of $190.7 million and $36.1 million respectively.

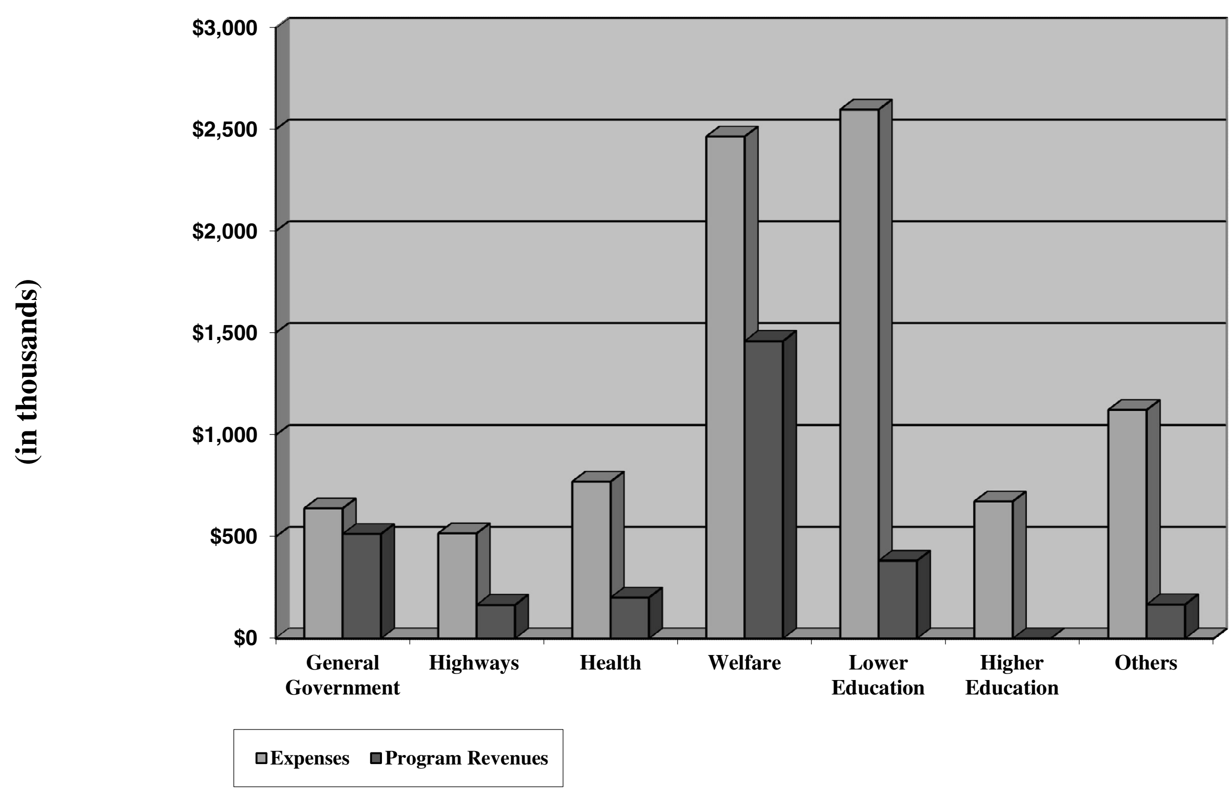
STATE OF HAWAII

Management's Discussion and Analysis ("Unaudited")

June 30, 2012

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, 2012



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STATE OF HAWAII

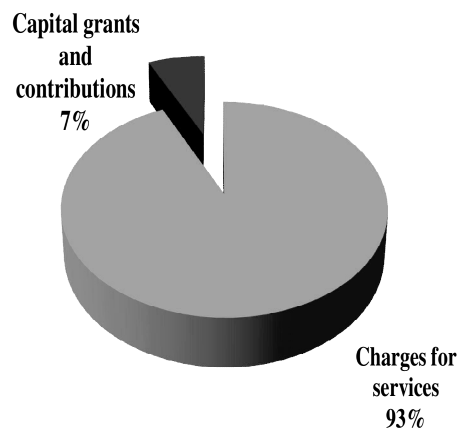
Management's Discussion and Analysis ("Unaudited")

June 30, 2012

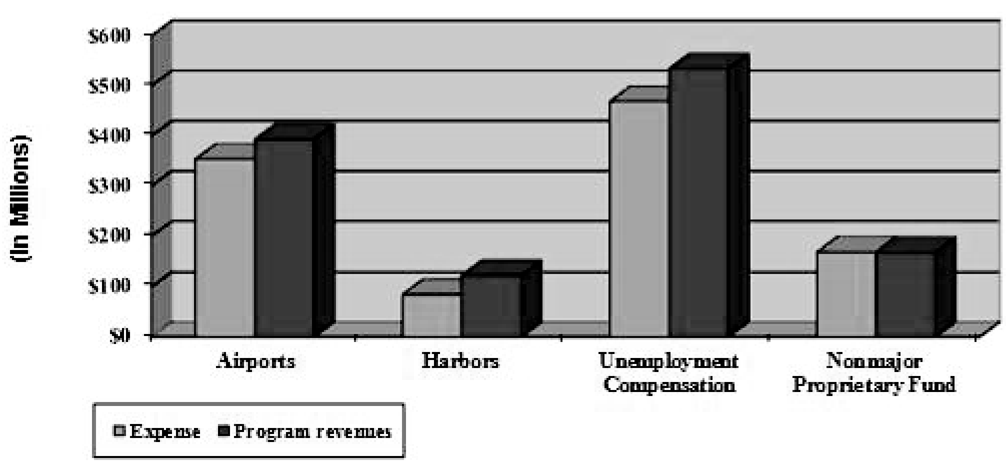
Business-Type Activities

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, 2012



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2012



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STATE OF HAWAII

Management's Discussion and Analysis ("Unaudited")

June 30, 2012

Business-type activities increased the State's net assets by $163.5 million in fiscal 2012, compared to an increase of $126.7 million in fiscal 2011. Key elements of this increase are as follows:

- Airport's net assets increased $41.6 million compared to an increase of $87.9 million in the prior fiscal year. Charges for current services decreased by $44.2 million primarily due to a temporary one year suspension in rental car customer facility charges. Interest income decreased by $18.6 million due to a $1.4 million decrease in the fair market value of investments in the State's treasury investment pool realized in fiscal year 2012 as compared with a $13.1 million increase in fiscal year 2011. Expenses decreased by $0.8 million.

- Harbor's net assets increased $38.8 million in fiscal 2012 compared to an increase of $20.9 million in fiscal 2011. Charges for current services increased by $18.0 million offset by an increase in expenses of $4.5 million.

- The Unemployment Compensation Fund's net assets increased $66.0 million compared to a decrease of $25.9 million in the prior fiscal year. The change was primarily due to a decrease in unemployment benefits paid of $92.9 million.

- Nonmajor Proprietary Fund's net assets increased $17.0 million in fiscal 2012 compared to an increase of $43.9 million in fiscal 2011. The change was primarily due to a decrease of $15.0 million in capital contributions.

  Key elements of the State's business-type activities for the fiscal years ended June 30, 2012 and 2011 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	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Airports	$ 343,279	$ 387,484	$ 49,375	$ 33,695	$ 392,654	$ 421,179	$ 353,541	$ 354,368	$ 39,113	$ 66,811
Harbors	103,876	85,920	19,357	9,426	123,233	95,346	84,826	80,355	38,407	14,991
Unemployment Compensation	533,963	535,243	-	-	533,963	535,243	468,610	561,548	65,353	(26,305)
Nonmajor Proprietary Funds	168,441	255,787	17,167	32,203	185,608	287,990	169,166	250,346	16,442	37,644
Total	$ 1,149,559	$ 1,264,434	$ 85,899	$ 75,324	$ 1,235,458	$ 1,339,758	$ 1,076,143	$ 1,246,617	$ 159,315	$ 93,141

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 extend 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 $1.4 billion. Of this amount, $109,000 is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional $518.4 million has been committed to specific purposes. An additional $769.2 million has been assigned to specific purposes by management. The unassigned or unrestricted fund balance was $162.1 million at fiscal year end. This amount includes a deficit of a negative unrestricted fund balance of $387.0 million in the Capital Projects Fund.

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 $807.4 million compared to $557.0 million in fiscal 2011. This increase is mainly attributed to the increase in tax revenues. The fund balance of the State's Capital Projects Fund increased $379.7 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 $507.9 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 increased $12.8 million and $55.5 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 assets of $41.6 million, Harbors had an increase in net assets of $38.8 million, the Unemployment Compensation Fund had an increase in net assets of $66.0 million, and the Nonmajor Proprietary Funds had an increase in net assets of $17.0 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 $293.9 million, or 5.5%, more than the final budget. The increase was attributed to higher tax revenues of $154.7 million, which was comprised of increases in general excise taxes of $74.6 million, and individual net income tax of $84.6 million.

The difference between the final budget and actual expenditures on a budgetary basis was $172.9 million. General government reflected a positive variance of $97.9 million which was primarily due to lower than expected cost for retirement and health benefits of $39.1 million and $21.5 million respectively. Also contributing to the positive variance in general government was $15.1 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 $28.1 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.

Capital Asset and Debt Administration

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounted to $11.3 billion (net of accumulated depreciation of $9.3 billion), an increase of $103.9 million from fiscal 2011. The increase is due to an increase in governmental activities assets of $405.8 million and in business-type assets of $157.9 million offset by increases in primary governmental activities and business-type activities accumulated depreciation of $365.3 million and $94.4 million, respectively. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2012, included the following:

- $154.8 million for various capital improvement projects and repairs and maintenance of public school facilities throughout the State.
- $28.9 million for Honolulu International Airport design and construction of support facilities.
- $34.5 million Taxiway improvements at Kahului Airport.
- $30.6 million for improvements to rental car facilities.
- $67.7 million for various capital improvement projects at airports, Statewide.
- $104.9 million for various highways projects throughout the State.
- $138.0 million various construction, maintenance and renovation projects at various University of Hawaii campuses.

- $25.9 million for various construction, maintenance and renovation projects at state community hospitals.

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, $5.5 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, 2012 and 2011
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
General obligation bonds	$ 5,475,348	$ 4,987,544	$ 34,611	$ 36,221	$ 5,509,959	$ 5,023,765
Revenue bonds	468,180	378,625	1,370,314	1,410,624	1,838,494	1,789,249
Total	$ 5,943,528	$ 5,366,169	$ 1,404,925	$ 1,446,845	$ 7,348,453	$ 6,813,014

The State's total long-term debt increased by $535.4 million, or 7.9%, during the current fiscal year. The increase resulted from issuance of General Obligation and Revenue Bonds offset by declining principal balances (see notes 4 and 5 to the basic financial statements).

As of June 30, 2012, 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, 2012 was $295 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 Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, 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 $13.6 billion. The State's combined annual OPEB cost for fiscal

2012 was $992.7 million and its OPEB contributions were $271.8 million, resulting in an increase in the net OPEB obligation of $720.9 million. The total net OPEB obligation balance at fiscal year end increased to $3.2 billion. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term while it analyzes alternative strategies that could be implemented to manage the high cost of providing retiree health benefits.

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for September 2012 was 5.7% while the seasonally adjusted national unemployment rates was 7.8%. One year ago, the State's seasonally adjusted unemployment rate stood at 6.8% while the seasonally adjusted national unemployment rate was 9.0%.

The Council of Revenues in January 2013 increased the State's General Fund tax revenue growth rate for fiscal year 2013 and 2014 from 4.9% to 5.1% and from 3.9% to 6.8%, respectively.

Cumulative general fund tax revenues for the first five months of fiscal 2013 was $2.2 billion, an increase of $238.7 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, increased 11.8%.

Because of the lower estimated general fund revenue growth in fiscal year 2013 projected during the budget cycle, the Governor has imposed a 5% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
CASH AND CASH EQUIVALENTS	$ 1,000,899	$ 864,569	$ 1,865,468	$ 369,023
RECEIVABLES:				
Taxes	441,549	90,169	531,718	-
Accounts and accrued interest — net	-	30,359	30,359	185,125
Notes, loans, mortgages, and contributions — net	78,854	-	78,854	25,241
Federal government	48,398	11,524	59,922	3,549
Premium	-	32,788	32,788	-
Other — net	43,330	4,492	47,822	19,622
Total receivables	612,131	169,332	781,463	233,537
INTERNAL BALANCES	1,597	(1,597)	-	-
DUE FROM COMPONENT UNITS	323,871	-	323,871	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	521,499
INVESTMENTS	941,401	-	941,401	430,882
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	24,099
Materials and supplies	-	458	458	32,665
Total inventories	-	458	458	56,764
RESTRICTED ASSETS	-	892,601	892,601	282,657
OTHER ASSETS:				
Prepaid expenses	5,844	17,553	23,397	15,757
Bond issue and deferred costs — net	100,677	8,031	108,708	1,498
Note receivable	-	398,644	398,644	481,386
Investments	-	-	-	556,783
Other	15,060	19,869	34,929	26,518
Total other assets	121,581	444,097	565,678	1,081,942
CAPITAL ASSETS:				
Land and land improvements	2,207,145	1,760,644	3,967,789	478,958
Infrastructure	8,915,933	-	8,915,933	151,840
Construction in progress	707,883	394,123	1,102,006	616,412
Buildings, improvements, and equipment	4,305,301	2,329,681	6,634,982	3,641,751
Accumulated depreciation	(7,302,913)	(2,011,251)	(9,314,164)	(1,949,885)
Total capital assets — net	8,833,349	2,473,197	11,306,546	2,939,076
TOTAL ASSETS	$ 11,834,829	$ 4,842,657	$ 16,677,486	$ 5,915,380

See accompanying notes to basic financial statements

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
LIABILITIES:				
Vouchers and contracts payable	$ 301,056	$ 29,445	$ 330,501	$ 206,306
Other accrued liabilities	267,079	74,053	341,132	113,284
Due to Component Units	521,499	-	521,499	-
Due to Primary Government	-	-	-	323,871
Due to federal government	22,014	-	22,014	-
Deferred revenue	-	5,511	5,511	60,117
Estimated future costs of land sold	-	-	-	34,926
Unamortized bond premium	365,627	-	365,627	-
Premiums payable	-	38,974	38,974	-
Other	74,784	-	74,784	5,542
Long-term liabilities:				
Due within one year:				
Payable from restricted assets — revenue bonds payable — net	-	40,292	40,292	-
Prepaid airport use charge fund	-	14,890	14,890	-
General obligation (GO) bonds payable	372,352	1,678	374,030	-
Notes, mortgages, and installment contracts payable	-	-	-	9,272
Accrued vacation and retirement benefits payable	71,417	3,706	75,123	43,690
Revenue bonds payable — net	27,030	-	27,030	19,222
Reserve for losses and loss adjustment costs	34,493	1,116	35,609	8,337
Capital lease obligations	5,461	-	5,461	7,257
Due in more than one year:				
Prepaid airport use charge fund	-	33,227	33,227	-
GO bonds payable	5,102,996	32,933	5,135,929	-
Notes, mortgages, and installment contracts payable	-	-	-	30,928
Accrued vacation and retirement benefits payable	141,366	8,610	149,976	76,583
Revenue bonds payable — net	441,150	1,330,022	1,771,172	1,050,232
Reserve for losses and loss adjustment costs	135,407	3,787	139,194	21,442
Capital lease obligations	89,879	-	89,879	24,929
Premium on bonds payable	-	-	-	5,625
Other postemployment benefit liability	2,530,970	47,568	2,578,538	624,411
Other	348	953	1,301	68,606
TOTAL LIABILITIES	10,504,928	1,666,765	12,171,693	2,734,580
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	2,794,481	1,560,267	4,354,748	2,073,849
RESTRICTED FOR:				
Capital maintenance projects	138,760	-	138,760	-
Health and welfare	112,966	-	112,966	-
Natural resources	106,018	-	106,018	-
Hawaiian programs	266,788	-	266,788	-
Budget stabilization	24,197	-	24,197	-
Other purposes	281,501	-	281,501	-
Bond requirements and other	64	966,042	966,106	1,023,041
UNRESTRICTED	(2,394,874)	649,583	(1,745,291)	83,910
TOTAL NET ASSETS	$ 1,329,901	$ 3,175,892	$ 4,505,793	$3,180,800

See accompanying notes to basic financial statements.

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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	$ 552,788	$ 266,878	$ 247,222	$ -	$ (38,688)	$ -	$ (38,688)	
Public safety	502,002	37,974	83	-	(463,945)	-	(463,945)	
Highways	516,924	6,489	61,356	97,322	(351,757)	-	(351,757)	
Conservation of natural resources	96,349	26,263	33,387	-	(36,699)	-	(36,699)	
Health	773,288	32,339	167,824	-	(573,125)	-	(573,125)	
Welfare	2,464,582	71	1,461,271	-	(1,003,240)	-	(1,003,240)	
Lower education	2,598,444	42,523	339,034	-	(2,216,887)	-	(2,216,887)	
Higher education	672,716	-	-	-	(672,716)	-	(672,716)	
Other education	16,753	-	-	-	(16,753)	-	(16,753)	
Culture and recreation	111,628	-	2,769	-	(108,859)	-	(108,859)	
Urban redevelopment and housing	23,888	3,509	29,781	-	9,402	-	9,402	
Economic development and assistance	209,460	5,099	27,710	-	(176,651)	-	(176,651)	
Interest expense	243,938	-	-	-	(243,938)	-	(243,938)	
Total governmental activities	8,782,760	421,145	2,370,437	97,322	(5,893,856)	-	(5,893,856)	
Business-type activities:								
Airports	353,541	343,279	-	49,375	-	39,113	39,113	
Harbors	84,826	103,876	-	19,357	-	38,407	38,407	
Unemployment compensation	468,610	533,963	-	-	-	65,353	65,353	
Nonmajor proprietary funds	169,166	168,441	-	17,167	-	16,442	16,442	
Total business-type activities	1,076,143	1,149,559	-	85,899	-	159,315	159,315	
TOTAL PRIMARY GOVERNMENT	$9,858,903	$1,570,704	$2,370,437	$ 183,221	(5,893,856)	159,315	(5,734,541)	
COMPONENT UNITS:								
University of Hawaii	$1,616,105	$ 377,077	$ 481,847	$ -				$ (757,181)
Hawaii Housing Finance and Development Corporation	57,856	41,829	25,304	-				9,277
Hawaii Public Housing Authority	123,513	18,435	74,106	11,030				(19,942)
Hawaii Health Systems Corporation	668,136	524,674	1,614	28,184				(113,664)
Hawaii Tourism Authority	108,727	9,607	-	-				(99,120)
Hawaii Community Development Authority	13,682	7,958	-	-				(5,724)
Hawaii Hurricane Relief Fund	3	-	-	-				(3)
Total component units	$2,588,022	$ 979,580	$ 582,871	$ 39,214				(986,357)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,774,636	-	2,774,636	-
Net income tax — corporations and individuals					1,633,085	-	1,633,085	-
Public service companies tax					150,528	-	150,528	-
Transient accommodations tax					138,529	-	138,529	-
Tobacco and liquor taxes					170,824	-	170,824	-
Liquid fuel tax					88,842	-	88,842	-
Tax on premiums of insurance companies					119,472	-	119,472	-
Vehicle weight and registration tax					98,187	-	98,187	-
Rental motor/tour vehicle surcharge tax					106,417	-	106,417	-
Franchise tax					7,229	-	7,229	-
Other tax					70,873	-	70,873	-
Interest and investment income					5,347	4,164	9,511	1,975
Payments from the State — net					-	-	-	911,505
Other revenue					-	-	-	49,732
Total general revenues					5,363,969	4,164	5,368,133	963,212
CHANGE IN NET ASSETS					(529,887)	163,479	(366,408)	(23,145)
NET ASSETS — Beginning of year					1,859,788	3,012,413	4,872,201	3,203,945
NET ASSETS — End of year					$ 1,329,901	$ 3,175,892	$ 4,505,793	$3,180,800

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 238,623	$ 222,355	$ 6,921	$ 533,000	$ 1,000,899
RECEIVABLES:					
Taxes	441,549	-	-	-	441,549
Notes and loans — net	2,187	-	-	76,667	78,854
Federal government	-	-	48,398	-	48,398
Other	14,047	-	-	1,384	15,431
DUE FROM OTHER FUNDS	133,005	-	-	64	133,069
DUE FROM PROPRIETARY FUNDS	-	1,597	-	-	1,597
DUE FROM COMPONENT UNITS	29,300	-	-	-	29,300
INVESTMENTS	286,913	56,839	8,458	589,191	941,401
OTHER ASSETS	15,060	-	-	-	15,060
TOTAL ASSETS	$ 1,160,684	$ 280,791	$ 63,777	$ 1,200,306	$ 2,705,558
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 115,379	$ 69,968	$ 31,944	$ 83,765	$ 301,056
Other accrued liabilities	213,900	(30)	-	53,543	267,413
Due to federal government	-	-	-	22,014	22,014
Due to other funds	64	89,900	28,400	14,705	133,069
Due to Component Units	1,563	507,943	-	-	509,506
Deferred revenue	22,340	-	-	-	22,340
Payable from restricted assets — matured bonds and interest payable	-	-	-	348	348
Total liabilities	353,246	667,781	60,344	174,375	1,255,746
FUND BALANCES:					
Restricted	-	-	-	109	109
Committed	-	-	-	518,374	518,374
Assigned	236,779	-	3,433	529,033	769,245
Unassigned	570,659	(386,990)	-	(21,585)	162,084
Total fund balances	807,438	(386,990)	3,433	1,025,931	1,449,812
TOTAL	$ 1,160,684	$ 280,791	$ 63,777	$ 1,200,306	$ 2,705,558

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 1,449,812
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land and land improvements	2,207,145
Infrastructure	8,915,933
Construction in progress	707,883
Buildings, improvements, and equipment	4,305,301
Accumulated depreciation	(7,302,913)
	8,833,349
Accrued interest and other payables are not recognized in Governmental Funds	(440,410)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in governmental funds, such as deferred revenue and settlement receivables	157,093
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	(5,475,348)
Accrued vacation payable	(212,783)
Revenue bonds payable	(468,180)
Reserve for losses and loss adjustment costs	(169,900)
Other postemployment benefit liability	(2,530,970)
Long-term transactions with Component Units	282,578
Capital lease obligations	(95,340)
	(8,669,943)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 1,329,901

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, 2012
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$ 2,774,636	$ -	$ -	$ -	$ 2,774,636
Net income tax — corporations and individuals	1,633,412	-	-	-	1,633,412
Public service companies tax	150,528	-	-	-	150,528
Transient accommodations tax	137,529	-	-	1,000	138,529
Tobacco and liquor taxes	151,707	-	-	19,117	170,824
Liquid fuel tax	-	-	-	88,842	88,842
Tax on premiums of insurance companies	117,617	-	-	1,855	119,472
Vehicle weight and registration tax	-	-	-	98,187	98,187
Rental motor/tour vehicle surcharge tax	61,430	-	-	44,987	106,417
Franchise tax	5,229	-	-	2,000	7,229
Other	47,799	-	-	23,074	70,873
Total taxes	5,079,887	-	-	279,062	5,358,949
Interest and investment income (loss)	(1,691)	-	-	7,038	5,347
Charges for current services	121,362	-	-	216,403	337,765
Intergovernmental	13,520	-	819,503	1,405,616	2,238,639
Rentals	360	-	-	25,061	25,421
Fines, forfeitures, and penalties	23,409	-	-	11,674	35,083
Licenses and fees	6,003	-	-	40,387	46,390
Revenues from private sources	25,297	-	-	39,788	65,085
Other	35,464	-	15,704	100,923	152,091
Total revenues	5,303,611	-	835,207	2,125,952	8,264,770
EXPENDITURES:					
Current:					
General government	369,664	63,162	-	54,770	487,596
Public safety	316,863	11,384	-	126,710	454,957
Highways	-	171,009	-	243,620	414,629
Conservation of natural resources	26,290	10,336	-	61,802	98,428
Health	484,543	40,884	-	204,414	729,841
Welfare	1,019,919	1,046	801,551	621,420	2,443,936
Lower education	1,776,825	149,574	-	403,731	2,330,130
Higher education	535,457	137,259	-	-	672,716
Other education	5,544	-	-	11,209	16,753
Culture and recreation	39,144	27,440	-	43,390	109,974
Urban redevelopment and housing	108	1,264	-	47,112	48,484
Economic development and assistance	24,141	12,913	-	110,391	147,445
Housing	20,021	26,112	-	-	46,133
Other	6,229	-	-	5,879	12,108
Debt service	-	-	-	587,760	587,760
Total expenditures	4,624,748	652,383	801,551	2,522,208	8,600,890
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	678,863	(652,383)	33,656	(396,256)	(336,120)
OTHER FINANCING SOURCES (USES):					
Issuance of GO and refunding GO bonds - par	-	800,000	-	486,230	1,286,230
Issuance of of GO and refunding GO bonds - premium	109,085	-	-	74,009	183,094
Issuance of revenue and refunding revenue bonds - par	-	112,270	-	5,095	117,365
Issuance of revenue and refunding revenue bonds - premium	-	13,152	-	467	13,619
Payment to refunded bond escrow agent	-	-	-	(565,801)	(565,801)
Transfers in	53,497	138,937	9,465	748,818	950,717
Transfers out	(591,053)	(32,301)	(30,275)	(297,088)	(950,717)
Total other financing (uses) sources	(428,471)	1,032,058	(20,810)	451,730	1,034,507
NET CHANGE IN FUND BALANCES	250,392	379,675	12,846	55,474	698,387
FUND BALANCES — Beginning of year	557,046	(766,665)	(9,413)	970,457	751,425
FUND BALANCES — End of year	$ 807,438	$ (386,990)	$ 3,433	$ 1,025,931	$ 1,449,812

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, 2012 (Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ 698,387
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	405,760
Depreciation expense	(375,388)
Excess of capital outlay over depreciation expense	30,372
Debt proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bonds issued.	(1,600,308)
Repayment of long-term debt is reported as an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Bond principal retirement	826,236
Capital lease payments	5,180
Total long-term debt repayment	831,416
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	(10,902)
Bond issue and deferred costs in Governmental Funds - reported in the statement of net assets - net of amortization.	88,495
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	(555,561)
Change in accrued vacation payable	2,816
Change in HHFDC long-term liability	1,778
Change in reserve for losses and loss adjustment costs	(16,380)
Total	(567,347)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (529,887)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 549,279	$ 115,012	$ 47,486	$ 152,792	$ 864,569
Restricted assets — cash and short-term investments	58,778	33,338	-	-	92,116
Receivables:					
Taxes	-	-	90,169	-	90,169
Accounts and accrued interest (net of allowance for doubtful accounts of $4,221)	20,612	8,881	-	866	30,359
Promissory note receivable (net of allowance for doubtful accounts of $5,060)	5	-	-	34,888	34,893
Federal government	5,401	5,883	-	240	11,524
Premiums	-	-	-	32,788	32,788
Other	389	912	-	3,191	4,492
Materials and supplies inventory	213	245	-	-	458
Prepaid expenses and other assets	-	843	-	16,710	17,553
Total current assets	634,677	165,114	137,655	241,475	1,178,921
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	1,251,626	509,018	-	-	1,760,644
Construction in progress	365,910	28,213	-	-	394,123
Buildings and improvements	1,654,756	419,967	-	-	2,074,723
Equipment	220,129	19,754	-	15,075	254,958
	3,492,421	976,952	-	15,075	4,484,448
Less accumulated depreciation	(1,738,637)	(264,027)	-	(8,587)	(2,011,251)
Net capital assets	1,753,784	712,925	-	6,488	2,473,197
Investments	96,893	-	-	-	96,893
Bond issue costs — net	4,409	3,622	-	-	8,031
Promissory note receivable	-	-	-	363,751	363,751
Restricted assets — net direct financing leases	31,212	-	-	-	31,212
Restricted assets — cash and cash equivalents	421,913	250,467	-	-	672,380
Other	3,995	414	-	15,460	19,869
Total noncurrent assets	2,312,206	967,428	-	385,699	3,665,333
TOTAL ASSETS	$ 2,946,883	$ 1,132,542	$ 137,655	$ 627,174	$ 4,844,254

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STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 21,593	$ 6,645	$ 505	$ 702	$ 29,445
Payable from restricted assets — contracts payable, accrued interest, and other	35,182	19,174	-	-	54,356
Other accrued liabilities	10,578	-	-	1,633	12,211
Due to Primary Government	-	1,597	-	-	1,597
Benefit claims payable	-	-	-	7,486	7,486
Prepaid airport use charge fund	14,890	-	-	-	14,890
Deferred revenue	5,511	-	-	-	5,511
General obligation bonds payable, current portion	-	1,678	-	-	1,678
Reserve for losses and loss adjustment costs	923	193	-	-	1,116
Accrued vacation, current portion	2,964	572	-	170	3,706
Payable from restricted assets — revenue bonds payable	28,450	11,842	-	-	40,292
Premiums payable	-	-	-	38,974	38,974
Total current liabilities	120,091	41,701	505	48,965	211,262
NONCURRENT LIABILITIES:					
General obligation bonds payable	-	32,933	-	-	32,933
Accrued vacation	6,498	1,613	-	499	8,610
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	969,431	360,591	-	-	1,330,022
Reserve for losses and loss adjustment costs	3,077	710	-	-	3,787
Other postemployment benefit liability	37,063	8,279	-	2,226	47,568
Prepaid airport use charge fund	33,227	-	-	-	33,227
Other	953	-	-	-	953
Total long-term liabilities	1,050,249	404,126	-	2,725	1,457,100
TOTAL LIABILITIES	1,170,340	445,827	505	51,690	1,668,362
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	1,039,369	514,515	-	6,488	1,560,372
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	314,492	84,359	-	567,193	966,044
UNRESTRICTED	422,682	87,841	137,150	1,803	649,476
TOTAL NET ASSETS	$ 1,776,543	$ 686,715	$ 137,150	$ 575,484	$ 3,175,892

See accompanying notes to basic financial statements.

(Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 143,573	$ -	$ -	$ -	$ 143,573
Unemployment compensation	-	-	533,963	-	533,963
Aviation fuel tax	4,338	-	-	-	4,338
Airport use charges	59,640	-	-	-	59,640
Rentals	102,132	28,979	-	-	131,111
Services and others	421	71,951	-	-	72,372
Administrative fees	-	-	-	10,053	10,053
Premium revenue — self insurance	-	-	-	152,435	152,435
Other	1,991	2,946	-	5,953	10,890
Total operating revenues	312,095	103,876	533,963	168,441	1,118,375
OPERATING EXPENSES:					
Personnel services	124,353	14,453	-	5,003	143,809
Depreciation and amortization	90,755	20,561	-	1,150	112,466
Repairs and maintenance	30,845	1,795	-	84	32,724
Airports operations	53,473	-	-	-	53,473
Harbors operations	-	17,651	-	-	17,651
Fireboat operations	-	1,968	-	-	1,968
General administration	18,891	7,303	-	4,175	30,369
Unemployment compensation	-	-	468,610	-	468,610
Claims	-	-	-	150,489	150,489
Other	119	-	-	951	1,070
Total operating expenses	318,436	63,731	468,610	161,852	1,012,629
Operating (loss) income	(6,341)	40,145	65,353	6,589	105,746
NONOPERATING REVENUES (EXPENSES):					
Interest and investment income	2,505	393	694	572	4,164
Interest expense	(33,215)	(21,092)	-	-	(54,307)
Federal grants	3,315	-	-	-	3,315
Loss on disposal of capital assets	(1,890)	(3)	-	-	(1,893)
Passenger facility charges	31,731	-	-	-	31,731
Other	(547)	-	-	(7,314)	(7,861)
Total nonoperating revenues (expenses)	1,899	(20,702)	694	(6,742)	(24,851)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(4,442)	19,443	66,047	(153)	80,895
CAPITAL CONTRIBUTIONS	46,060	19,357	-	17,167	82,584
CHANGE IN NET ASSETS	41,618	38,800	66,047	17,014	163,479
NET ASSETS - Beginning of year	1,734,925	647,915	71,103	558,470	3,012,413
NET ASSETS — End of year	$ 1,776,543	$ 686,715	$ 137,150	$ 575,484	$ 3,175,892

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 356,838	$ 102,729	$ -	$ -	$ 459,567
Cash received from taxes	-	-	319,553	-	319,553
Cash received from employer and employees for premiums and benefits	-	-	-	500,858	500,858
Cash paid to suppliers	(147,826)	(31,263)	-	(4,408)	(183,497)
Cash paid to employees	(64,977)	(12,673)	-	(4,386)	(82,036)
Cash paid for unemployment compensation	-	-	(468,881)	-	(468,881)
Cash paid for premiums and benefits payable	-	-	-	(510,786)	(510,786)
Reserves returned by insurance carriers	-	-	-	(2,261)	(2,261)
Interest income from notes receivable	-	-	-	3,179	3,179
Administrative loan fees	-	-	-	4,248	4,248
Principal repayments on notes receivable	-	-	-	32,690	32,690
Disbursement of note receivable proceeds	-	-	-	(51,863)	(51,863)
Other cash receipts	-	-	210,954	-	210,954
Net cash provided by (used in) operating activities	144,035	58,793	61,626	(32,729)	231,725
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State capital contributions	-	-	-	5,872	5,872
Proceeds from federal operating grants	4,878	-	-	30,462	35,340
Disbursements of federal operating grants	-	-	-	(8,029)	(8,029)
Other	-	-	(18,337)	5,975	(12,362)
Net cash provided by (used in) noncapital financing activities	4,878	-	(18,337)	34,280	20,821
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payments to Airports Division	-	(8,191)	-	-	(8,191)
Acquisition and construction of capital assets	(111,553)	(39,116)	-	(87)	(150,756)
Repayment of general obligation and revenue bonds principal	(25,370)	(9,424)	-	-	(34,794)
Proceeds from loan to primary government	-	186,193	-	-	186,193
Payments to refund airports system revenue bonds	(7,534)	-	-	-	(7,534)
Interest paid on bonds	(45,446)	(21,707)	-	-	(67,153)
Other interest paid	-	(1,483)	-	-	(1,483)
Proceeds from passenger facility charges program	31,037	-	-	-	31,037
Proceeds from rental car customer facility charges program	5,582	-	-	-	5,582
Payments from rental car customer facility charges program	(6,256)	-	-	-	(6,256)
Payments from passenger facility charges program	(14,405)	-	-	-	(14,405)
Proceeds from federal, state, and capital grants	50,325	16,171	-	-	66,496
Net cash provided by (used in) capital and related financing activities	(123,620)	122,443	-	(87)	(1,264)
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	3,327	742	731	722	5,522
Net cash provided by investing activities	3,327	742	731	722	5,522
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,620	181,978	44,020	2,186	256,804
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — beginning of the year	1,001,350	216,839	3,466	150,606	1,372,261
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — end of year	$ 1,029,970	$ 398,817	$ 47,486	$ 152,792	$ 1,629,065

See accompanying notes to basic financial statements

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ (6,341)	$ 40,145	$ 65,353	$ 6,589	$ 105,746
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	393	-	-	393
Depreciation	90,755	20,423	-	1,150	112,328
Other amortization	-	138	-	-	138
Bad debt expense	(562)	-	-	-	(562)
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	39,526	-	-	-	39,526
Premium reserves held by insurance companies	-	-	-	(2,288)	(2,288)
Principal forgiveness of loans	-	-	-	(2,000)	(2,000)
Decrease (increase) in assets:					
Receivables	6,622	(1,734)	(3,455)	(17,485)	(16,052)
Inventory of materials and supplies	13	5	-	-	18
Deposits	-	-	-	(4,958)	(4,958)
Prepaid expenses	-	(18)	-	-	(18)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	5,058	(2,584)	(272)	(110)	2,092
Other accrued liabilities	10,289	2,025	-	20,387	32,701
Prepaid airport use charge fund	(2,758)	-	-	-	(2,758)
Deferred revenue	1,433	-	-	-	1,433
Accrued interest on loans receivable	-	-	-	(34,014)	(34,014)
Net cash provided by (used in) operating activities	$ 144,035	$ 58,793	$ 61,626	$ (32,729)	$ 231,725

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 deferred loss on refunding	$ (3,476)	$ (390)	$ -	$ -	$ (3,866)
Principal payments relating to special facility revenue bonds	835	-	-	-	835
Interest payments relating to special facility revenue bonds	1,930	-	-	-	1,930
Development capital assets from other sources	-	3,033	-	-	3,033
Payments to refund airport system revenue bonds	(321,286)	-	-	-	(321,286)
Proceeds from issuance of refunding airport systems revenue bonds	321,286	-	-	-	321,286

See accompanying notes to basic financial statements.

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	Agency Funds
ASSETS	
CASH AND CASH EQUIVALENTS	$ 478,464
RECEIVABLES — taxes	33,444
INVESTMENTS	92,532
OTHER ASSETS - primarily due from individuals, businesses, and counties	94,547
TOTAL	$ 698,987
LIABILITIES AND NET ASSETS	
VOUCHERS PAYABLE	$ 58,621
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	640,366
TOTAL	$ 698,987

See accompanying notes to basic financial statements.

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STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
ASSETS				
CASH AND CASH EQUIVALENTS	$ 55,567	$ 162,654	$ 66,942	$ 37,625
RECEIVABLES:				
Accounts and accrued interest (net of allowance for	79,657	14,353	346	90,019
doubtful accounts of $65,404)	-	-	-	-
Notes, loans, mortgages, and contributions (net of				
allowance for doubtful accounts)	16,275	8,966	-	-
Federal government	-	-	3,549	-
Other	-	2,678	308	12,344
DUE FROM PRIMARY GOVERNMENT	439	33,000	19,166	60,129
INVESTMENTS	392,779	815	-	7,212
INVENTORIES:				
Developments in progress and dwelling units	-	24,099	-	-
Materials and supplies	12,716	-	931	19,018
PREPAID EXPENSES AND OTHER ASSETS	10,842	354	2,029	-
	568,275	246,919	93,271	226,347
RESTRICTED ASSETS:				
Cash and cash equivalents	-	76,275	-	10,335
Investments	-	183,083	-	-
Deposits, funded reserves, and other	-	465	-	-
Total restricted assets	-	259,823	-	10,335
CAPITAL ASSETS:				
Land and land improvements	114,500	43,355	25,340	6,457
Infrastructure	107,526	-	-	-
Construction in progress	545,827	-	35,664	31,403
Buildings, improvements, and equipment	2,126,110	158,107	554,239	567,680
Less accumulated depreciation	(1,067,026)	(104,474)	(318,739)	(295,978)
Total capital assets — net	1,826,937	96,988	296,504	309,562
OTHER ASSETS:				
Notes, loans, mortgages, and contributions (net of				
allowance for doubtful accounts $7,265)	23,544	449,329	5,243	-
Due from Primary Government	395,390	11,991	-	-
Investments	526,663	7,149	-	-
Other assets	23,874	1,498	594	1,676
Total other assets	969,471	469,967	5,837	1,676
TOTAL ASSETS	$ 3,364,683	$ 1,073,697	$ 395,612	$ 547,920

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 10,611	$ 34,828	$ 796	$ 369,023
-	646	104	185,125
-	-	-	25,241
-	-	-	3,549
4,292	-	-	19,622
-	1,384	-	114,118
9,497	-	20,579	430,882
-	-	-	24,099
-	-	-	32,665
114	2,418	-	15,757
24,514	39,276	21,479	1,220,081
12,499	-	-	99,109
-	-	-	183,083
-	-	-	465
12,499	-	-	282,657
131,497	157,809	-	478,958
-	44,314	-	151,840
-	3,518	-	616,412
216,085	19,530	-	3,641,751
(111,822)	(51,846)	-	(1,949,885)
235,760	173,325	-	2,939,076
-	3,270	-	481,386
-	-	-	407,381
22,971	-	-	556,783
-	374	-	28,016
22,971	3,644	-	1,473,566
$ 295,744	$ 216,245	$ 21,479	$ 5,915,380

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2012
(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	$ 106,068	$ 838	$ 6,083	$ 88,926
Other accrued liabilities	95,626	12,362	5,051	-
Due to Primary Government	6,000	-	-	2,000
Deferred revenue	36,816	23,251	-	-
Estimated future costs of land sold	-	34,926	-	-
Notes, mortgages, and installment contracts payable	-	60	-	9,212
Accrued vacation and retirement benefits payable	27,440	-	-	16,036
Revenue bonds payable — net	14,240	4,982	-	-
Reserve for losses and loss adjustment costs	5,279	-	-	3,058
Capital lease obligations	-	-	-	7,257
Other liabilities	-	1,848	1,689	1,152
Total current liabilities	291,469	78,267	12,823	127,641
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	-	5,576	-	25,352
Accrued vacation and retirement benefits payable	47,162	-	-	28,779
Revenue bonds payable — net	608,670	441,562	-	-
Reserve for losses and loss adjustment costs	9,606	-	-	11,836
Premium on bonds payable	5,625	-	-	-
Capital lease obligations	-	-	-	24,929
Due to Primary Government	722	-	-	21,300
Other postemployment benefit liability	413,462	2,451	9,289	196,718
Other liabilities	15,844	2,549	1,469	23,020
Total noncurrent liabilities	1,101,091	452,138	10,758	331,934
TOTAL	1,392,560	530,405	23,581	459,575
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	1,336,377	27,722	296,504	250,811
RESTRICTED	765,876	243,013	4,952	663
UNRESTRICTED (DEFICIT)	(130,130)	272,557	70,575	(163,129)
TOTAL NET ASSETS	$ 1,972,123	$ 543,292	$ 372,031	$ 88,345

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 3,544	$ 447	$ 400	$ 206,306
98	147	-	113,284
19,409	-	-	27,409
-	50	-	60,117
-	-	-	34,926
-	-	-	9,272
120	94	-	43,690
-	-	-	19,222
-	-	-	8,337
-	-	-	7,257
-	853	-	5,542
23,171	1,591	400	535,362
-	-	-	30,928
346	296	-	76,583
-	-	-	1,050,232
-	-	-	21,442
-	-	-	5,625
-	-	-	24,929
274,436	4	-	296,462
1,386	1,105	-	624,411
-	25,724	-	68,606
276,168	27,129	-	2,199,218
299,339	28,720	400	2,734,580
(10,890)	173,325	-	2,073,849
7,295	1,242	-	1,023,041
-	12,958	21,079	83,910
$ (3,595)	$ 187,525	$ 21,079	$ 3,180,800

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,616,105	$ 57,856	$ 123,513	$ 668,136
PROGRAM REVENUES:				
Charges for services	377,077	41,829	18,435	524,674
Operating grants and contributions	481,847	25,304	74,106	1,614
Capital grants and contributions	-	-	11,030	28,184
Total program revenues	858,924	67,133	103,571	554,472
Net program (expenses) revenues	(757,181)	9,277	(19,942)	(113,664)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	1,272	(446)	-	310
Payments from (to) the State	692,572	36,500	3,106	73,376
Other	49,815	-	1,658	(741)
Net general revenues (expenses)	743,659	36,054	4,764	72,945
Change in net assets	(13,522)	45,331	(15,178)	(40,719)
NET ASSETS — Beginning of year	1,985,645	497,961	387,209	129,064
NET ASSETS — End of year	$ 1,972,123	$ 543,292	$ 372,031	$ 88,345

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 108,727	$ 13,682	$ 3	$ 2,588,022
9,607	7,958	-	979,580
-	-	-	582,871
-	-	-	39,214
9,607	7,958	-	1,601,665
(99,120)	(5,724)	(3)	(986,357)
442	59	338	1,975
104,641	1,710	(400)	911,505
(1,000)	-	-	49,732
104,083	1,769	(62)	963,212
4,963	(3,955)	(65)	(23,145)
(8,558)	191,480	21,144	3,203,945
$ (3,595)	$ 187,525	$ 21,079	$ 3,180,800

STATE OF HAWAII

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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) is Hawaii's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawaii. 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 377 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 257 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 the 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, SLH 2005, as amended by act 180, SLH 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 2005, as amended by Act 180, SLH 2006, created the Hawaii Public Housing Authority (the Authority).

The Authority's 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 of Hawaii 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 of Hawaii. HHSC is managed by a chief executive officer under the control of a 13-member board of directors.

In June 1996, the Legislature of the State passed Act 262, S.B. 2522. The Act, 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 Ho'ola Hamakua
Ka'u 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.

In June 2007, the State legislature passed Act 290, S.B. 1792. This Act, 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.

In 2009, the Legislature passed Act 182, S.B. 1673, effective July 1, 2009, which 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.

In June 2011, the Legislature passed Act 126, S.B. 1300, effective July 1, 2011, which 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.

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 Hawaii Community Development Authority (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 21 (13 regular members, five and three members who vote only on Kalaeloa and He’eia matters, respectively) voting members who, as a body, oversees the HCDA’s operations and establishes policies to implement its legislative objectives. The board is required to report annually to the State Legislature and the Governor. The 21 member board is comprised of the following:

- 13 members that vote on issues related to Kaka‘ako and Kalaeloa:
  - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;
  - Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;
  - Four at-large members appointed by the Governor;
  - The Director of Budget and Finance, as an Ex Officio voting member;
  - The Director of DBEDT, as an Ex Officio voting member;
  - The Comptroller of the Department of Accounting and General Services, an Ex Officio voting member; and
  - The Director of Transportation, as an Ex Officio voting member.
- Five members appointed by the Governor that vote only on issues related to Kalaeloa:
  - The Chairperson of the Hawaiian Homes Commission;
  - The Director of the City and County of Honolulu Department of Planning and Permitting;
  - Two members from the surrounding community, one of which is selected by the Mayor of the City and County of Honolulu; and
  - One member who is a Hawaiian Cultural Specialist.
- Three members appointed by the Governor that vote only on issues related to He‘eia:
  - All three members shall be residents of the He‘eia 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 Assets and the Statement of Activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these Government-Wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- 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 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.

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. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

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

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

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

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

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

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

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

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

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

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

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

Long-Term Obligations — In the Government-Wide financial statements, 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 assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

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

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

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

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 legislature.
- *Assigned* — Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- *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 automobile claims.

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

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

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

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

New Accounting Pronouncements

GASB Statement No. 60 — The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which will be effective for years beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. The State does not expect this Statement will have a material effect on its 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 will be effective for years beginning after June 15, 2012. This Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. The State is currently evaluating the impact that GASB Statement No. 61 will have on its 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* is 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 FASB and AICPA pronouncements. The State does not expect that this Statement will have a material effect on its 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 will become 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. The State does not expect that this Statement will have a material effect on its 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 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources of deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 66 - The GASB issued Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statement 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. 68 – The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will become effective for financial statements for periods beginning after June 15, 2014. This Statement establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The State is currently evaluating the impact that GASB Statement No. 68 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, 2012, was $1,865,468,000 and $892,601,000 respectively, for the Primary Government and unrestricted cash for the Fiduciary Funds as of June 30, 2012, was $478,464,000.

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 $1,981,723,000 at June 30, 2012. Of that amount, $1,981,623,000 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 $47,301,000 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, 2012, 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, 2012 (amounts expressed in thousands).

		Maturity (in Years)		
	Fair Value	Less than 1	1–5	>5
Investments — Primary Government:				
Student loan auction rate securities	$ 225,936	$ -	$ -	$ 225,936
Certificates of deposit	263,592	263,592	-	-
U.S. government securities	348,319	168,642	133,821	45,856
Repurchase agreements	103,554	85,950	17,604	-
	$ 941,401	$ 518,184	$ 151,425	$ 271,792
Investments — Fiduciary Funds:				
Student loan auction rate securities	$ 22,208	$ -	$ -	$ 22,208
Certificates of deposit	25,909	25,909	-	-
U.S. government securities	34,237	16,576	13,153	4,508
Repurchase agreements	10,178	8,448	1,730	-
	$ 92,532	$ 50,933	$ 14,883	$ 26,716

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

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

The State's investments include auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. Beginning in 2009 and throughout 2010, auctions failed and investors without the ability to hold such securities until maturity have taken significant losses. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. During 2012, the State recorded a fair value adjustment of $10,100,000 to decrease the carrying value of the State investment pool's auction rate securities to their fair value at June 30, 2012.

On November 23, 2010, the State and Citigroup Global Market Inc. ("Citi") reached an agreement whereby in June 2015, the State will have the option to require Citi to purchase some or all of the State's remaining investments in auction rate securities. The agreement also provides that starting July 2012, the State will have the ability to obtain interim liquidity on its auction rate securities portfolio of up to $150 million worth of securities, at market value, with the difference between that market value and par paid by Citi in July 2015.

As of June 30, 2012, the State's auction rate securities portfolio had a cost of $479,600,000 and an estimated fair value of $458,797,000. The estimated fair value is comprised of $408,917,000 attributable to the auction rate securities and $49,880,000 million attributable to the fair value of the Citi settlement agreement.

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.

STATE OF HAWAII

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

3. CAPITAL ASSETS

For the fiscal year ended June 30, 2012, 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, 2011	Additions	Deductions	Balance — June 30, 2012
Capital assets not being depreciated:				
Land and land improvements	$ 2,182,065	$ 25,964	$ (884)	$ 2,207,145
Construction in progress	793,166	314,733	(400,016)	707,883
Total capital assets not being depreciated	2,975,231	340,697	(400,900)	2,915,028
Capital assets being depreciated:				
Infrastructure	8,720,586	195,972	(625)	8,915,933
Buildings and improvements	3,673,523	245,811	-	3,919,334
Equipment	361,162	36,543	(11,738)	385,967
Total capital assets being depreciated	12,755,271	478,326	(12,363)	13,221,234
Less accumulated depreciation:				
Infrastructure	(4,689,570)	(228,943)	228	(4,918,285)
Buildings and improvements	(1,953,530)	(117,813)	-	(2,071,343)
Equipment	(294,468)	(28,632)	9,815	(313,285)
Total accumulated depreciation	(6,937,568)	(375,388)	10,043	(7,302,913)
Total capital assets	$ 8,792,934	$ 443,635	$ (403,220)	$ 8,833,349

STATE OF HAWAII

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities			
	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012
Capital assets not being depreciated:				
Land and land improvements	$ 585,215	$ -	$ -	$ 585,215
Construction in progress	343,723	174,039	(123,639)	394,123
Total capital assets not being depreciated	928,938	174,039	(123,639)	979,338
Capital assets being depreciated:				
Land and improvements	1,097,480	79,866	(1,917)	1,175,429
Buildings and improvements	2,041,664	41,956	(8,897)	2,074,723
Equipment	258,497	4,382	(7,921)	254,958
Total capital assets being depreciated	3,397,641	126,204	(18,735)	3,505,110
Less accumulated depreciation:				
Land and improvements	(714,676)	(36,415)	1,917	(749,174)
Buildings and improvements	(1,026,098)	(63,685)	7,401	(1,082,382)
Equipment	(176,120)	(12,366)	8,791	(179,695)
Total accumulated depreciation	(1,916,894)	(112,466)	18,109	(2,011,251)
Total capital assets	$ 2,409,685	$ 187,777	$ (124,265)	$ 2,473,197

Depreciation expense for the fiscal year ended June 30, 2012, was charged to functions/programs of the Primary Government as follows (amounts expressed in thousands):

Governmental activities:	
Highways	$ 212,316
Lower education	67,498
General government	33,572
Urban redevelopment and housing	21,729
Public safety	16,287
Conservation of natural resources	8,585
Health	6,855
Economic development and assistance	4,390
Welfare	2,423
Culture and recreation	1,733
Total depreciation expense — governmental activities	$ 375,388
Business-type activities:	
Airports	$ 90,755
Harbors	20,561
EUTF	1,050
DWTLF	97
WPCF	3
Total depreciation expense — business-type activities	$ 112,466

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 BZ, issued October 1, 1992; Series CA, issued January 1, 1993; 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, DV, and DW, issued November 24, 2009, Series DY, issued February 18, 2010, and Series EB, EC, and ED, issued December 7, 2011, contain call provisions. Stated interest rates range from .2% to 8%.

On December 7, 2011, the State issued $800,000,000, $403,455,000, $2,800,000, $56,225,000 and $23,750,000 of general obligation refunding bonds of 2011, Series DZ, EA, EB, EC, and ED, respectively. Interest rates were 2% to 5% to advance refund $512,515,000 of certain outstanding general obligation bonds previously issued. The net proceeds of $558,980,000 (including a premium of $74,009,000 and after payment of $1,256,000 in underwriting fees) 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. 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 $59,093,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $64,403,000. The Series EA is subject to optional redemption while Series EB, EC and ED bonds are not subject to redemption by the State prior to their respective stated maturities. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

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, 2012, $621,415,000 of bonds outstanding is considered defeased.

At June 30, 2012, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$4,367,419
Noncallable	1,142,540
Total general obligation bonds outstanding	5,509,959
Less amount recorded as a liability of — Proprietary Funds — Harbors	(34,611)
Amount recorded in the governmental activities of the Primary Government	$5,475,348

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A summary of general obligation bonds outstanding by series as of June 30, 2012, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
BZ	October 1, 1992	6.000%	October 1, 2012	200,000	$ 1,535
CA	January 1, 1993	5.500%–8.000%	January 1, 2012–2013	90,000	5,000
CH	November 1, 1993	4.750%	November 1, 2011–2013	250,000	27,770
CM	December 1, 1996	6.000-6.500%	December 1, 2012–2016	150,000	41,650
CW	August 1, 2001	4.300%–5.500%	August 1, 2011–2015	156,750	12,460
CY	February 15, 2002	5.50%–5.750%	February 1, 2012–2015	319,290	123,605
CZ	November 26, 2002	3.500%–5.500%	July 1, 2011–2022	300,000	17,860
DA	September 16, 2003	3.750%–5.250%	September 1, 2011–2023	225,000	101,070
DB	September 16, 2003	4.000%–5.250%	September 1, 2011–2016	188,650	101,885
DD	May 13, 2004	3.700%–5.250%	May 1, 2012–2024	225,000	42,800
DE	November 10, 2004	3.000%–5.000%	October 1, 2011–2024	225,000	130,725
DF	June 15, 2005	3.250%–5.000%	July 1, 2011–2025	225,000	163,375
DG	June 15, 2005	5.000%	July 1, 2011–2017	722,575	516,820
DI	March 23, 2006	3.800%–5.500%	March 1, 2013–2026	350,000	289,190
DJ	April 12, 2007	3.625%–5.000%	April 1, 2012–2027	350,000	306,450
DK	May 20, 2008	3.000%–5.000%	May 1, 2012–2028	375,000	359,110
DL	May 20, 2008	3.000%–5.000%	May 1, 2012–2018	29,010	25,265
DM	May 20, 2008	4.260%–4.670%	May 1, 2012–2014	25,000	8,985
DN	December 16, 2008	3.000%–5.500%	August 1, 2012-2028	100,000	100,000
DO	December 16, 2008	3.000%–5.000%	August 1, 2011-2018	101,825	90,840
DP	December 16, 2008	4.150%–5.680%	August 1, 2011-2016	26,000	22,160
DQ	June 23, 2009	3.000%–5.000%	June 1, 2013-2029	500,000	490,219
DR	June 23, 2009	3.000%–5.000%	June 1, 2014-2019	225,410	203,910
DS	November 5, 2009	.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
DV	November 24, 2009	2.000%–5.000%	November 1, 2012	46,855	46,855
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, 2031	800,000	800,000
EA	December 7, 2011	2.000%–5.000%	December 1, 2023	403,455	403,455
EB	December 7, 2011	2.000%	December 1, 2012	2,800	2,800
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
					$ 5,509,959

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.

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A summary of the bond premium activities for fiscal year 2012 is as follows (amounts expressed in thousands):

Balance — July 1, 2011	$ 214,415
GO Bond Series DZ, EA, EB, EC, and ED	183,095
Defeased Bond Series CV, CW, CX, CZ, DA, DB, DD, DE, DF, DI	(19,357)
Current-year amortization	(33,296)
Balance — June 30, 2012	$ 344,857

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
2013	$ 372,352	$ 259,126	$ 631,478
2014	430,556	240,722	671,278
2015	412,116	222,349	634,465
2016	406,473	201,776	608,249
2017	426,177	182,051	608,228
2018—2022	1,632,255	643,744	2,275,999
2023—2027	1,219,387	306,935	1,526,322
2028—2031	576,032	63,107	639,139
	$ 5,475,348	$ 2,119,810	$ 7,595,158

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
2013	$ 1,678	$ 1,702	$ 3,380
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—2022	11,710	5,193	16,903
2023—2027	12,773	1,986	14,759
2028—2029	893	44	937
	$ 34,611	$ 14,892	$ 49,503

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, 2012, was $294,505,000.

At June 30, 2012, general obligation bonds authorized but unissued were approximately $1,551,402,000.

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, the Highways issued $112,270,000 in State of Hawaii Highway Revenue Bonds of 2011, Series A, with interest rates ranging from 0.75% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable annually January 1 through 2032.

On December 15, 2011, the Highways issued $5,095,000 in State of Hawaii Highway Revenue Bonds of 2011, Series B, with an interest rate of 4% 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 improvements projects. The bonds are payable semiannually on April and October 1 through 2039.

On December 17, 2008, the Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4.75% to 6% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2029.

On March 15, 2005, the Highways issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2025.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with interest rates ranging from 3.5% 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 bonds are payable semiannually on January and July 1 through 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 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 in annual installments through July 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.

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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, 2012 (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	3.50%–5.25%	July 1, 2011–2013	44,940	10,465
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2011–2025	60,000	46,675
2005 B	March 15, 2005	3.00%–5.25%	July 1, 2011–2021	123,915	112,155
2008	December 17, 2008	4.75%–6.00%	January 1, 2012–2029	125,175	113,415
2011 A	December 15, 2011	0.75%-5.00%	January 1, 2013-2032	112,270	112,270
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, 2012–2039	42,500	40,525
					$ 468,180

A summary of the revenue bond premium activities for fiscal year 2012 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance — July 1, 2011	$ 9,341
Current-year additions	13,619
Current-year amortization	(2,190)
Balance — June 30, 2012	$ 20,770

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

Fiscal Year	Principal	Interest	Total
2013	$ 27,030	$ 23,348	$ 50,378
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
2018–2022	139,790	64,608	204,398
2023–2027	94,200	37,575	131,775
2028–2032	67,660	14,451	82,111
2033–2037	11,295	3,760	15,055
2038–2040	5,520	502	6,022
	$ 468,180	$ 223,522	$ 691,702

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, 2012 (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	$ 478,690
2010B, refunding	3.00%–5.00%	2020	166,000	166,000
2011, refunding	2.00%-5.00%	2024	300,885	300,885
			$ 945,865	945,575
Add unamortized premium				28,858
Less:				
Deferred loss on refunding				(7,557)
Current portion				(27,545)
Noncurrent portion				$ 939,331

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The certificate providing for the issuance of revenue bonds requires that the Airports division impose, prescribe, and collect revenues that, together with unemcumbered funds, will yield net revenues and taxes at least equal to 1.25 times the total interest, principal, and sinking fund requirements for the ensuing 12 months. The Airports division is also required to maintain adequate insurance on its properties. At June 30, 2012, $209,933,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

On October 4, 2011, the Airports Division issued $300,885,000 of airports system revenue bonds (Refunding Series 2011 (AMT)) at interest rates ranging from 2% to 5% to refund its outstanding Refunding Series of 2001 bonds. The average interest rates of the refunded bonds were 5.5782%. Of the net proceeds of approximately $321,287,000 (after payment of approximately $1,664,000 in underwriting fees, insurance and other costs), along with approximately an additional $7,534,000 from the debt service reserve account, approximately $328,822,000 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of Refunding Series of 2001 bonds on November 3, 2011. As a result, the refunded portion of the Refunding Series on 2001 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

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 and aggregated to $31,005,000 at June 30, 2012.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2012.

$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.

$6,600,000 Issue

During the year ended June 30, 2011, the bonds with a stated maturity date of December 1, 2010 were paid off. The bonds bore interest at 10.125% and were subject to redemption on or after December 1, 2003, at the option of the Airports Division, upon the request of Sky Chefs, Inc. or, if the facilities are destroyed or damaged extensively, at 100% plus interest.

Special facility revenue bonds payable at June 30, 2012, consisted of the following (amounts expressed in thousands):

	Continental		Total
Current portion	$ 905	$ -	$ 905
Noncurrent portion	8,375	21,725	30,100
	$ 9,280	$ 21,725	$ 31,005

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.

In November 2010, the Harbors Division issued $201,390,000 of Revenue Bonds, consisting of $164,275,000 of Series A of 2010 Revenue Bonds and $37,115,000 of Series B of 2010 Revenue Bonds. The Harbors Division's net proceeds of $199,749,000 (including net premiums of $256,000 and after payment of $1,897,000 in underwriting fees), were used to advance refund certain outstanding Revenue Bonds, as well as to fund future harbor capital improvement projects. The Series A of 2010 Revenue Bonds are secured by a cash deposit of $11,455,000.

The net proceeds from the Series B of 2010 Revenue Bonds, along with $2,180,000 from the Harbors Division's cash accounts, were used to advance refund $38,930,000 of the Series A of 2000 Revenue Bonds previously issued and for a redemption premium of $389,000. The advance refunding resulted in a difference between the acquisition price and the net carrying amount of the refunded debt of $1,599,000. This difference is being charged to operations over the next 11 years. However, due to the advance refunding, the Harbors Division decreased its total debt service payments over the next 11 years by $2,554,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,916,000.

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The following is a summary of the Harbors' revenue bonds as of June 30, 2012 (amounts expressed in thousands):

				Current			
Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Principal Due July 1, 2012	Due January 1, 2013	Total	Noncurrent
2000	July 1, 2029	4.50%–6.00%	$ 79,405	$ -	$ -	$ -	$ 14,670
2002	July 1, 2019	3.00%–5.50%	24,420	605	-	605	9,405
2004	January 1, 2024	2.50%–6.00%	52,030	-	1,365	1,365	20,710
2006	January 1, 2031	4.00%–5.25%	96,570	-	2,645	2,645	80,420
2007	July 1, 2027	4.25%–5.50%	51,645	4,215	-	4,215	42,395
2010	July 1, 2040	3.00%–5.75%	201,390	3,210	-	3,210	196,295
			$505,460	8,030	4,010	12,040	363,895
Add unamortized premium				-	-	293	1,456
Less:							
Unamortized discount				-	-	(2)	(16)
Unamortized deferred loss on refunding				-	-	(489)	(4,744)
				$ 8,030	$ 4,010	$ 11,842	$ 360,591

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
2013	$ 42,292	$ 65,950	$ 108,242
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
2018–2022	313,650	241,065	554,715
2023–2027	243,590	162,962	406,552
2028–2032	204,040	106,278	310,318
2033–2037	192,230	59,117	251,347
2038–2041	169,492	31,979	201,471
	$ 1,370,314	$ 908,526	$ 2,278,840

Revenue Bonds Authorized, but Unissued — At June 30, 2012, revenue bonds authorized, but unissued were approximately $3,835,541,000.

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, 2012, amounted to approximately $1,397,093,000. At June 30, 2012, special purpose revenue bonds of $1,399,660,000 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, 2012.

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, 2011	Additions	Deductions	Balance — June 30, 2012	Due Within One Year
General obligation bonds payable — net	$ 4,987,544	$ 1,286,230	$ (798,426)	$ 5,475,348	$ 372,352
Accrued vacation payable	215,599	92,401	(95,217)	212,783	71,417
Revenue bonds payable	378,625	117,365	(27,810)	468,180	27,030
Reserve for losses and loss adjustment costs	153,520	43,030	(26,650)	169,900	34,493
Other postemployment benefits liability	1,975,409	760,652	(205,091)	2,530,970	-
Capital lease obligations	100,520	-	(5,180)	95,340	5,461
Total	$ 7,811,217	$ 2,299,678	$ (1,158,374)	$ 8,952,521	$ 510,753

	Business-Type Activities				
	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012	Due Within One Year
General obligation bonds payable — net	$ 36,221	$ -	$ (1,610)	$ 34,611	$ 1,678
Accrued vacation and retirement benefits payable	12,280	5,661	(5,625)	12,316	3,706
Revenue bonds payable	1,410,624	327,885	(368,195)	1,370,314	40,292
Reserve for losses and loss adjustment costs	4,871	1,095	(1,063)	4,903	1,116
Other postemployment benefits liability	34,808	17,527	(4,767)	47,568	-
Prepaid airport use charge fund	12,302	38,574	(2,759)	48,117	14,890
	$ 1,511,106	$ 390,742	$ (384,019)	$ 1,517,829	$ 61,682

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 80%, 19%, 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, 2012.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2012 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Special Revenue Funds	$ 14,705	$ -
Capital Projects Fund	89,900	-
Med-Quest Special Revenue Fund	28,400	-
Debt Service Fund	-	64
	133,005	64
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	-	28,400
Nonmajor Governmental Funds:		
General Fund	64	14,705
Capital Projects Fund	-	-
	64	14,705
Proprietary Fund — Harbors	-	1,597
	$ 134,666	$ 134,666

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.

STATE OF HAWAII

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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, 2012, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 53,497	$ 591,053
Capital Projects Fund — Nonmajor Governmental Funds	138,937	32,301
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	9,465	30,275
Nonmajor Governmental Funds:		
General Fund	586,719	26,727
Capital Projects Fund	32,301	138,937
Medquest Fund	3,505	4,997
Other Nonmajor Governmental Funds	126,293	126,427
	748,818	297,088
	$ 950,717	$ 950,717

The General Fund transferred approximately $530,067,000 to the Nonmajor Governmental Funds for debt service payments and approximately $56,652,000 to subsidize various Special Revenue Funds programs. Approximately $138,937,000 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 2024. Future minimum lease commitments for noncancelable operating leases as of June 30, 2012, were as follows (amounts expressed in thousands):

Fiscal Year	
2013	$ 15,098
2014	12,399
2015	9,945
2016	7,271
2017	4,711
2018–2022	11,316
2023–2024	1,086
Total future minimum lease payments	$ 61,826

Rent expenditures for operating leases for the fiscal year ended June 30, 2012, amounted to approximately $34,894,000.

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) 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 certificates of participation. 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% - 5%.

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	
2013	$ 10,308
2014	10,271
2015	10,563
2016	10,901
2017	11,032
2018–2022	37,682
2023–2027	28,081
2028–2032	19,191
Total future minimum lease payments	138,029
Less amount representing interest	(42,689)
Present value of net minimum lease payments	95,340
Less current portion	(5,461)
Noncurrent portion	$ 89,879

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 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 $4,338,000 for fiscal year 2012.

Airports — System Rates and Charges

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

- Landing fees amounted to approximately $63,401,000 for fiscal year 2012. Airport landing fees are shown net of aviation fuel tax credits of $3,761,000 for fiscal year 2012, on the statement of revenues, expenses, and changes in net assets, which resulted in net airport landing fees of $59,640,000 for fiscal year 2012. 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 40% of the Airports landing fees for overseas flights for 2012 and are scheduled to increase 1% annually until it reaches 100%.

- Nonexclusive joint-use premise charges for terminal rentals amounted to approximately $47,052,000 for fiscal year 2012. 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 $41,663,000 for fiscal year 2012, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to approximately $24,044,000 for fiscal year 2012.

- Airports system support charges amounted to approximately $421,000 for fiscal year 2012. 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, 2012, was approximately $42,034,000.

In fiscal year 2006, Airports converted certain past-due amounts from two lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from zero to nine years. The balance of $220,000 at June 30, 2012, is due as follows: $126,000 in 2013, $35,000 in 2014, $35,000 in 2015, and $24,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 29% of total concession fees revenues for the fiscal year ended June 30, 2012.

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 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 $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million, 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2012 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fifth year of the lease term. Percentage rent during this period is calculated the same as during the first 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 ($9,950,000 during the last year of the five-year term).

Harbors — Aloha Tower Complex Development

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

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer, and 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 of 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors' construction 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 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, 2012 was approximately $4,923,000.

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.

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Revenues for the fiscal year ended June 30, 2012, amounted to $28,979,000 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, 2012 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	**Airports**	**Harbors**	**Total**
2013	$ 114,894	$ 8,623	$ 123,517
2014	117,460	8,470	125,930
2015	109,425	7,079	116,504
2016	74,899	6,837	81,736
2017	61,742	5,427	67,169
2018–2022	109,021	25,872	134,893
2023–2027	21,019	25,151	46,170
2028–2032	13,291	21,304	34,595
2033–2037	8,770	15,221	23,991
2038–2042	16,940	9,947	26,887
2043–2047	-	6,197	6,197
2048–2052	-	2,617	2,617
2053–2057	-	2,481	2,481
2058–2059	-	517	517
	$ 647,461	$ 145,743	$ 793,204

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, 2012, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 49,687
Less amount representing interest	(21,885)
	27,802
Cash with trustee and other	3,410
	$ 31,212

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2012, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2013	$ 2,777
2014	2,778
2015	2,770
2016	2,778
2017	2,776
2018–2022	10,773
2023–2027	6,110
2028	22,336
	$ 53,098

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 $13,771,000 of amounts due from the department of Hawaiian Homelands (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 $2.2 million payments 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, 2012, the full amount was not yet repaid to the State. The total amount due to the State includes $20,123,000 of cash advances to the Department of Health — Division of Community Hospitals, which was assumed by HHSC at the date of its formation. HHSC also received $10,000,000 in advances from the State. On March 30, 2010, the State agreed to defer payment of the $10,000,000 advance over four years beginning in fiscal 2012. Of the $10,000,000 in advances, $2,000,000 is due in fiscal year 2013.

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. 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 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% 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, 2012, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $246,650,000 and $149,784,000, 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
2013	$ 12,390	$ 14,038	$ 26,428
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
2018–2022	93,470	38,671	132,141
2023–2027	83,335	48,818	132,153
	$ 246,650	$ 149,784	$ 396,434

Hawaii Hurricane Relief Fund

On June 25, 2002, Act 179 was signed into law by the Governor of the State of Hawaii. 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, 2012, interest earned and transferred into the State General Fund amounted to $400,000.

On May 26, 2011, Act 62 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, 2012.

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% 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% 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, 2012, 2011, and 2010, were approximately $396,380,000, $388,242,000, and $398,724,000, respectively. The State contributed 108.6%, 105.3%, and 99.6% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2012, was approximately $2,638,338,000.

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 family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at 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 at 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 retire 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 Employer 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. Therefore, an actuarial valuation was performed for 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, 2012 (amounts in thousands):

	EUTF	UH
Annual required contribution	$ 817,658	$ 134,921
Interest on net OPEB obligation	87,800	12,726
Adjustment to annual required contribution	(48,869)	(11,569)
Annual OPEB cost	856,589	136,078
Contributions made	(231,000)	(40,759)
Increase in net OPEB obligation	625,589	95,319
Net OPEB obligation — beginning of year	2,163,898	318,143
Net OPEB obligation — end of year	$ 2,789,487	$ 413,462
Actuarial accrued liability (AAL) July 1, 2011	$ 11,706,157	$ 1,860,680
Funded OPEB plan assets	-	-
Unfunded actuarial accrued liability (UAAL) July 1, 2011	$ 11,706,157	$ 1,860,680
Funded ratio	- %	- %
Covered payroll	$ 2,093,431	$ 503,900
UAAL as percentage of covered payroll	559 %	369 %

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The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation
EUTF	June 30, 2012	$ 856,589	27.0 %	$ 2,789,487
	June 30, 2011	906,117	25.3 %	2,155,055
	June 30, 2010	687,847	27.8 %	1,046,690
HSTA VEBA (*)	June 30, 2010	$ 202,179	8.7 %	$ 441,026
UH	June 30, 2012	$ 136,078	30.0 %	$ 413,462
	June 30, 2011	150,637	25.7 %	318,143
	June 30, 2010	101,521	22.8 %	206,271

(*) Effective January 1, 2011, HSTA VEBA became part of the EUTF.

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.

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 %
Projected salary increases	3.5 %
Healthcare inflation rates:	
Medical & Rx Pre-65 (HMSA)	8.0% initial, 5.0% ultimate
Medical & Rx Pre-65 (HMSA & Kaiser-HSTA)	8.5% initial, 5.0% ultimate
Medical & Rx Post-65 (HMSA)	8.5% initial, 5.0% ultimate
Medical & Rx Post-65 (Kaiser)	15.0% initial, 5.0% ultimate
Dental	4.0% initial and ultimate
Vision	3% initial and ultimate
Medicare Part B	5% initial and ultimate

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, 2012, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 17,006
Agriculture	6,856
Natural Resources	3,207
All Other	374
	$ 27,443

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, 2012, accumulated sick leave was approximately $1,034,722,000.

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, 2012.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2012, the Enterprise Funds had commitments of approximately $329,914,000 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, 2012, 2011, and 2010, approximated $3,668,000, $4,130,000, and $11,171,000, 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 $48,589,000 during the fiscal year ended June 30, 2012. As of June 30, 2012, the State expects to receive $27,900,000 for the first six months of fiscal 2013.

Office of Hawaiian Affairs

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 re-conveyed title to those lands (collectively, the "Ceded Lands") to the State, and the Ceded Lands are to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

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

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

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

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

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

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

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

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the

Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justifiability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. In Act 34, SLH 2003, the legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in OHA I was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report ("IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the Airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing ("FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 ("DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act (Section 340) essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

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

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

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass any bills for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

On June 2, 2010, OHA filed a petition for writ of mandamus in the Hawaii Supreme Court which asked the court to compel the members of the Twenty-Sixth Legislature (which convened in January 2011) to enact legislation to pay OHA what OHA believes represents unpaid portions of the income and proceeds derived from the ceded lands between 1978 or 1980 through 2008, i.e., approximated at $200,000,000. The court entered an order denying the petition on August 18, 2010. It was reported on November 17, 2011, that the

State has reached an agreement in principle, subject to approval of the Legislature, to resolve the amount the State owes OHA through 2012 by providing OHA approximately 25 acres of land worth an estimated $200,000,000. No prediction can be made as to whether an agreement will be finalized and, if so, what form it may take.

On April 11, 2012, the Governor signed Act 15, SLH 2012 ("Act 15"), into law. Act 15 conveys title to nine parcels, valued at approximately $200,000,000 to OHA, as of July 1, 2012. Act 15 also satisfies, resolves, discharges, releases, waives, extinguishes, prohibits, and bars, finally and completely, any and all claims, disputes, controversies, rights, actions, and causes of action, OHA (or other parties claiming through OHA) has asserted or could have asserted to the income and proceeds from the Ceded Lands. Act 15 also withdrew any waiver of sovereign immunity the State may previously have made with respect to OHA's portion of receipts from Ceded Lands, and affirms that the State does not waive its sovereign immunity to permit a claim or suit to be brought to invalidate the act's operative provision.

Until the Legislature alters the amount or establishes a different means of implementing Article XII, Sections 4 and 6 of the Hawaii Constitution, Act 178 serves as the means for satisfying the State's obligation to provide OHA with a portion of the income and proceeds from the Ceded Lands, for native Hawaiians.

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

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

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008, decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008, with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate."

On July 15, 2009 all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join the rest of the plaintiffs' motion to dismiss.

By a judgment on appeal filed on December 14, 2009 that referred to an opinion filed on October 27, 2009, the Hawaii Supreme Court vacated the January 31, 2003 judgment, and remanded the case to the circuit court for entry of a judgment dismissing plaintiff Osorio's claims against the State without prejudice. In the Circuit Court, the Attorney General filed a motion to dismiss plaintiff Osorio's claims without prejudice, and a motion to dissolve the injunction entered on June 4, 2008. Two orders were filled in the circuit court on March 9, 2010, one dismissing plaintiff Osorio's claims without prejudice, and the other dissolving the June 4, 2008 injunction.

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

The HFDC and the HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH subsequently was bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

Individual Claims

In 1991, the State Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (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 nonbinding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by November 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999, if they were not satisfied with the Panel's findings and advisory opinions, or the State 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. As of September 30, 1999, the Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the Legislature.

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

On December 29, 1999, the same three claimants filed a class action lawsuit in the 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. Aguiar v. State of Hawaii, et al., Civil No. 99-612 (3rd Cir.); Silva v. State of Hawaii, et al., Civil No. 99-4775-12 (1st Cir.); Wilhelm v. State of Hawaii, et al., Civil No. 99-4774-12 (First Circuit Court); Williamson v. State of Hawaii, et al., Civil No. 99-4773-12 (First Circuit Court); Hanohano v. State of Hawaii, et al., Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in Kalima I that are common to the questions of law presented in their suits. Plaintiff Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

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

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

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

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) 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 subclass' claims separately and first.

By orders entered on August 6, and August 25, 2009, respectively, two new waiting list subclass representative plaintiffs were added, and the claims of one of the two previously named waiting list subclass representatives were dismissed. Trial on the liability portion of the waiting list subclass' claims began on August 4, 2009 and on November 3, 2009 the circuit judge for the case ruled that the State committed various 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. The State's motion for permission to take an immediate appeal from the circuit court's rulings before a trial on the damages portion of the waiting list subclass' claim began was denied.

After competing motions were filed by the opposing parties to establish a model to calculate damages suffered by each subclass member as a result of the breaches of trust, on January 24, 2012, the circuit court issued an order that, inter alia, state that 1) for purposes of the computation of damages, the time to run would start at the earliest six years from the date a beneficiary's application is accepted for placement on the list to receive homesteads, 2) denied Steps 1 and 2 of Defendant's proposed damages model, 3) called for motion to be presented by the parties to determine issues that the parties wish to raise with respective to individualized circumstances that can be determined on a class-wide basis, and 4) state that after resolution of the motions referenced in 3), the Court would determine the model to be used to calculate damages and whether referral to a Special Master to make such calculations is appropriate. Defendants filed a motion for reconsideration of the above-described order, which was subsequently denied.

The parties filed motions to determine issues with respect to individualized circumstances that can be determined on a class-wide basis on February 10, 2012. The hearing on those motions was postponed to permit notices to opt-out of the Waiting List Damages Model Subclass to be given. The Notice informed members of their right to opt-out by July 15, 2012, and to file damage claims on or before September 1, 2012. Ten individuals opted-out; to the best of the State's knowledge, none filed a separate damage claim on or before September 1, 2012. The motion filed on February 10, 2012 were heard on August 31, 2012, and taken under advisement.

Trial on out of pocket damages, if necessary, has been scheduled for March 4, 2013.

Nelson et al., v. Hawaiian Homes Commission

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

The Nelson 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 homelands 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 ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. 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 Legislature, the State, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for the 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.

The plaintiffs also asked the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs. By a stipulation filed on August 24, 2009, the claim for declaratory and injunctive relief against the DHHL's leasing of trust property solely to generate revenue was dismissed without prejudice, and the claim to invalidate the Honokohau Makai property lease was dismissed with prejudice.

On September 23, 2009, a final judgment was filed in the circuit court. Plaintiffs filed their notice of appeal from (1) the January 21, 2009 order granting the State's motion for summary judgment rejecting plaintiffs' claims that the Legislature, State or any State agency or employee is required to provide or secure particular amounts of money for DHHL and its programs, (2) the January 22, 2009 order granting the DHHL's and

Commission's joinder in the State's motion, and (3) the March 17, 2009 order denying the plaintiffs' motion for reconsideration. On January 12, 2011, the Intermediate Court of Appeals, by an opinion by J. Foley with J. Nakamura concurring separately, concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, vacated the circuit court 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 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 support the political question doctrine defense. The application was accepted and oral argument was heard by the Supreme Court on October 6, 2011. At the close of the argument, the case was taken under advisement by the court.

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. In the meantime, plaintiffs are seeking attorneys fees, which all defendants oppose.

The State intends to defend vigorously against the claims against the State 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 Nelson, in the respective plaintiffs' favor, could have a material adverse effect on the State's and DHHL's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's (ERS or the "System") actuarial investment earnings in excess of 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 $346,900,000 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 intervener 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 intervener defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross-appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervener 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 $346,900,000 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. The State is unable to determine the outcome at this time.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a purported class action 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 (the "EUTF Board") (collectively, the "Defendants"). In relevant part, Plaintiffs' claimed that Defendants have violated their constitutional, contractual and statutory rights of Plaintiffs 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. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003, to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed the EUTF's Board's decision to the First Circuit Court. By order dated July 23, 2008, the circuit court reversed the decision of the EUTF Board. The circuit court's order held that (a) "accrued benefits" under article XVI, section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) HRS Section 87A-23 requires retirees and their dependents to be provided with health benefits plans that provide benefits reasonably approximate to those provided to active employees and their dependents; and (d) certain of the health benefits provided to retirees and their dependents by the EUTF were not reasonably approximate to those provided to active employees and their dependents. The State and EUTF Board appealed the First Circuit Court's decision to the Hawaii Supreme Court. In a decision dated March 25, 2010, the Hawaii Supreme Court affirmed in part and reversed in part the First Circuit Court's decision. The Hawaii Supreme Court affirmed the First Circuit Court's holding that health benefits for retired state and county employee constitute "accrued benefits" pursuant to Article XVI, Section 2 of the Hawaii Constitution, but reversed the First Circuit Court's holding that HRS Chapter 87A (particularly HRS Section 87A-23) required that retiree health benefits reasonably approximate those provided to active employees. 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 again 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 not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Plaintiffs added a new claim that retirees hired prior to July 1, 2001, are contractually entitled to participate in EUTF health plans without any premium contribution regardless of the contribution caps in HRS Section 87A-33 through 87A-36. Plaintiffs also claim that the EUTF was negligent in failing to provide retirees and their dependents with health benefits that were equivalent to those provided to active employees and their dependents and/or in failing to recognize or inform retirees that they could not be required to contribute money towards the premiums of their health care coverage despite the contribution caps in HRS Sections 87A-33 through 87A-36. Plaintiffs seek declaratory and injunctive relief and damages. The damages sought are the amounts that Plaintiffs and their class have personally paid for health care that should have been covered by their EUTF health plans, caused by their forgoing or delaying health care due to insufficient coverage that should have been covered by their EUTF health plans. In March 2011, the First Circuit Court orally granted Plaintiffs' motion to certify a class consisting of all individuals who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, prior to July 1, 2003, and who qualify as a retired employee-beneficiary and/or whose dependent qualifies as a dependent-beneficiary as those terms are defined in HRS Sections 87A-1 and 87A-21. The parties are currently engaged in discovery. No trial date has yet been set. The State is vigorously contesting liability in this lawsuit.

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.

Because an adverse determination was made by the Circuit Court and upheld on appeal, liability against the State is probable. However, no determination has been made as to the amount of damages. The Plaintiff's estimate of damages in this case is approximately $30,000,000. However, this amount is disputed by the State and there has been no determination by the trial judge as to the amount of damages. Any determination by the trial judge is subject to appeal and would not be finalized unless and until the appeal process is completed.

13. RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, 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 risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $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.

STATE OF HAWAII

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets, as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2012 (amounts expressed in thousands):

	2012	2011
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 153,520	$ 151,712
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	43,517	32,110
Decrease in provision for insured events of prior fiscal years	(487)	(1,976)
Total incurred losses and loss adjustment costs	43,030	30,134
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(7,770)	(5,856)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(18,880)	(22,470)
Total payments	(26,650)	(28,326)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 169,900	$ 153,520

14. SUBSEQUENT EVENTS

Auction Rate Securities Settlement

On August 2, 2012, Citi exercised its right, under the November 23, 2010 Settlement Agreement, to purchase $149.5 million of the State's investments in auction rate securities at par value. The auction rate securities purchased by Citi had a fair market value of $143.2 million at June 30, 2012.

On October 10, 2012, Citi exercised its right, under the November 23, 2010 Settlement Agreement, to purchase $88.3 million of the State's investments in auction rate securities at par value. The auction rate securities purchased by Citi had a fair market value of $85.2 million at June 30, 2012.

General Obligation Bonds

On December 4, 2012, the State issued $444 million General Obligation Bonds of 2012 Series EE, $396.99 million of General Obligation Refunding Bonds of 2012 Series EF, and $26 million in Taxable General Obligations Bonds of 2012 Series EG. The Refunding Bond proceeds were used to advance refund outstanding General Obligation Bonds previously issued.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

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

STATE OF HAWAII

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,695,863	$ 2,623,348	$ 2,697,951	$ 74,603
Net income tax:				
Corporations	56,362	77,446	73,027	(4,419)
Individuals	1,547,406	1,456,113	1,540,730	84,617
Inheritance and estate tax	19,600	19,600	14,125	(5,475)
Liquor permits and tax	39,685	49,004	48,854	(150)
Public service companies tax	211,625	122,545	150,528	27,983
Tobacco tax	102,480	119,264	102,853	(16,411)
Tax on premiums of insurance companies	105,000	115,000	117,617	2,617
Franchise tax (banks and other financial institutions)	24,349	27,955	5,229	(22,726)
Transient accommodations tax	85,860	112,677	126,302	13,625
Other taxes, primarily conveyances tax	18,454	94,649	95,105	456
Total taxes	4,906,684	4,817,601	4,972,321	154,720
Non-taxes:				
Interest and investment income	10,297	10,268	4,740	(5,528)
Charges for current services	238,489	241,125	231,071	(10,054)
Intergovernmental	4,584	4,529	13,520	8,991
Rentals	630	588	360	(228)
Fines, forfeitures, and penalties	24,115	23,868	23,409	(459)
Licenses and fees	1,020	5,313	6,003	690
Revenues from private sources	16,153	25,180	25,297	117
Debt service requirements	38,720	38,720	40,469	1,749
Other	179,017	179,928	323,864	143,936
Total non-taxes	513,025	529,519	668,733	139,214
Total revenues	5,419,709	5,347,120	5,641,054	293,934
EXPENDITURES:				
General government	1,878,267	1,997,224	1,899,323	97,901
Public safety	243,161	239,982	237,852	2,130
Conservation of natural resources	25,551	24,131	20,735	3,396
Health	404,598	396,552	386,014	10,538
Hospitals	82,140	71,876	71,876	-
Welfare	1,041,243	1,043,040	1,032,498	10,542
Lower education	1,429,717	1,391,923	1,357,223	34,700
Higher education	386,307	378,689	376,108	2,581
Other education	5,088	5,009	4,819	190
Culture and recreation	39,216	38,044	37,231	813
Economic development and assistance	19,853	24,680	23,579	1,101
Housing	15,526	16,416	15,013	1,403
Other	-	13,669	6,053	7,616
Total expenditures	5,570,667	5,641,235	5,468,324	172,911
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(150,958)	(294,115)	172,730	466,845
OTHER FINANCING SOURCES — Transfers in	17,004	25,660	19,575	(6,085)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ (133,954)	$ (268,455)	$ 192,305	$ 460,760

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, 2012
(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	925,760	937,314	853,986	(83,328)
Rentals	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	32,000	5,000	15,951	10,951
Total non-taxes	957,760	942,314	869,937	(72,377)
Total revenues	957,760	942,314	869,937	(72,377)
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	880,891	880,891	829,663	51,228
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	880,891	880,891	829,663	51,228
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ 76,869	$ 61,423	$ 40,274	$ (21,149)

STATE OF HAWAII

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION — BUDGETARY CONTROL FOR THE YEAR ENDED JUNE 30, 2012

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 2011 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 2009 — 2011 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 the Department of Accounting and General Services. During the fiscal year ended June 30, 2012, 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, 2012
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2012, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and other sources over expenditures — actual (budgetary basis)	$ 192,305	$ 40,274
Transfers	-	(3,092)
Excess of revenues and over expenditures — actual (budgetary basis)	192,305	37,182
Reserve for encumbrances at fiscal year end *	272,519	29,938
Expenditures for liquidation of prior fiscal year encumbrances	(294,403)	(64,052)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(1,971)	-
Tax refunds payable	17,135	-
Accrued liabilities	(10,392)	(59,123)
Accrued revenues	75,199	68,901
Net change in fund balance — GAAP basis	$ 250,392	$ 12,846

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

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	804.8
July 1, 2011	-	11,706	11,706	-	2,093	559.2

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	234.8 %
July 1, 2009	-	2,484	2,484	-	683	363.7

UH

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	238.0 %
July 1, 2009	-	1,850	1,850	-	495	373.4
July 1, 2011	-	1,861	1,861	-	504	369.3

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, 2012
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 75,602	$ 45,498	$ 65,434	$ 19,835	$ 104,761	$ 9,989	$ 14,138
RECEIVABLES:							
Notes and loans — net	-	17,686	-	-	-	1,974	-
Other — Net	1,384	-	-	-	-	-	-
DUE FROM OTHER FUNDS	-	-	-	-	-	-	-
INVESTMENTS	90,495	54,983	79,045	24,236	89,025	12,016	17,108
TOTAL	$ 167,481	$ 118,167	$ 144,479	$ 44,071	$ 193,786	$ 23,979	$ 31,246
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 24,696	$ 9,433	$ 10,384	$ 3,886	$ 14,410	$ 2,851	$ 6,409
Other accrued liabilities	4,024	2,717	26,120	380	10,847	1,060	1,589
Due to federal government	-	-	-	22,014	-	-	-
Due to other funds	-	-	-	12,800	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	28,720	12,150	36,504	39,080	25,257	3,911	7,998
FUND BALANCES:							
Restricted	-	-	-	-	-	-	-
Committed	-	91,105	129,560	-	-	18,390	18,014
Assigned	138,761	14,912	-	4,991	168,529	1,678	5,234
Unassigned	-	-	(21,585)	-	-	-	-
Total fund balances	138,761	106,017	107,975	4,991	168,529	20,068	23,248
TOTAL	$ 167,481	$ 118,167	$ 144,479	$ 44,071	$ 193,786	$ 23,979	$ 31,246

	Special Revenue Funds				Debt	Total Nonmajor
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Service Fund	Governmental Funds
$ 20,629	$ 98,678	$ 57,727	$ 20,361	$ 532,652	$ 348	$ 533,000
-	57,007	-	-	76,667	-	76,667
-	-	-	-	1,384	-	1,384
-	-	-	-	-	64	64
24,925	115,746	56,839	24,773	589,191	-	589,191
$ 45,554	$ 271,431	$ 114,566	$ 45,134	$ 1,199,894	$ 412	$ 1,200,306
$ 1,094	$ 4,209	$ 2,250	$ 4,143	$ 83,765	$ -	$ 83,765
1,698	435	2,925	1,748	53,543	-	53,543
-	-	-	-	22,014	-	22,014
-	-	-	1,905	14,705	-	14,705
-	-	-	-	-	348	348
2,792	4,644	5,175	7,796	174,027	348	174,375
-	45	-	-	45	64	109
35,167	158,498	67,640	-	518,374	-	518,374
7,595	108,244	41,751	37,338	529,033	-	529,033
-	-	-	-	(21,585)	-	(21,585)
42,762	266,787	109,391	37,338	1,025,867	64	1,025,931
$ 45,554	$ 271,431	$ 114,566	$ 45,134	$ 1,199,894	$ 412	$ 1,200,306

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	16,592	1,315	-	-	3,944	1,223
Transient accommodations tax	-	1,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	16,828	-	-	-	-
Liquid fuel tax	86,980	250	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	92,990	-	5,197	-	-	-	-
Rental motor/tour vehicle surcharge tax	44,987	-	-	-	-	-	-
Total taxes	224,957	17,842	23,340	-	-	3,944	1,223
Interest and investment income	479	738	24	2	93	24	37
Charges for current services	2,222	25,604	29,218	210	41,229	5,099	17,054
Intergovernmental	145,325	21,562	138,136	624,398	275,977	26,159	47,318
Rentals	1,000	8,518	-	-	375	1,348	-
Fines, forfeitures, and penalties	2,010	133	2,280	-	-	-	1,270
Licenses and fees	2,047	525	841	71	1,294	-	-
Revenues from private sources	-	2	25,569	2	9,774	-	-
Other	13,353	3,304	2,342	1,663	52,908*	203	2,056
Total revenues	391,393	78,228	221,750	626,346	381,650	36,777	68,958
EXPENDITURES:							
Current:							
General government	-	4,110	176	-	-	-	-
Public safety	-	2,905	-	-	-	-	2,010
Conservation of natural resources	-	61,298	-	-	-	-	-
Health	-	-	204,414	-	-	-	-
Welfare	-	-	-	609,614	-	-	-
Lower education	-	-	-	-	397,245	-	-
Other education	-	-	-	11,209	-	-	-
Culture and recreation	-	8,993	-	-	3,367	-	-
Urban redevelopment and housing	-	-	-	2,758	-	-	-
Economic development and assistance	-	4,468	-	1,189	-	37,200	66,045
Other	-	3	-	-	-	-	-
Highways	236,392	106	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	236,392	81,883	204,590	624,770	400,612	37,200	68,055
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	155,001	(3,655)	17,160	1,576	(18,962)	(423)	903
OTHER FINANCING SOURCES (USES):							
Issuance of GO and refunding GO bonds - par	-	-	-	-	-	-	-
Issuance of GO and refunding GO bonds - premium	-	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds - par	-	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds - premiu	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	-
Transfers in	57	3,204	741	3,218	89,030	212	141
Transfers out	(197,138)	(2,989)	(5,016)	(28,299)	(4)	(2,313)	(298)
Total other financing (uses) sources	(197,081)	215	(4,275)	(25,081)	89,026	(2,101)	(157)
NET CHANGE IN FUND BALANCES	(42,080)	(3,440)	12,885	(23,505)	70,064	(2,524)	746
FUND BALANCES — Beginning of year	180,841	109,457	95,090	28,496	98,465	22,592	22,502
FUND BALANCES — End of year	$ 138,761	$106,017	$107,975	$ 4,991	$168,529	$ 20,068	$ 23,248

* Other revenues in the Education Special Revenue Fund include approximately $36 million of excess revenues over expenditures from prior periods related to Hawaii State Public Charter Schools which was not previously reported.

Special Revenue Funds							
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ -	$ 2,000
-	-	-	-	23,074	-	-	23,074
-	-	-	-	1,000	-	-	1,000
-	-	2,289	-	19,117	-	-	19,117
-	-	-	1,612	88,842	-	-	88,842
1,855	-	-	-	1,855	-	-	1,855
-	-	-	-	98,187	-	-	98,187
-	-	-	-	44,987	-	-	44,987
3,855	-	2,289	1,612	279,062	-	-	279,062
108	5,391	75	67	7,038	-	-	7,038
17,202	3,509	53,474	21,582	216,403	-	-	216,403
-	4,201	55,514	67,026	1,405,616	-	-	1,405,616
-	12,503	(1,452)	2,769	25,061	-	-	25,061
3,354	-	253	2,374	11,674	-	-	11,674
17,418	-	17,833	358	40,387	-	-	40,387
-	3,000	1,438	3	39,788	-	-	39,788
83	13,077	5,616	6,318	100,923	-	-	100,923
42,020	41,681	135,040	102,109	2,125,952	-	-	2,125,952
-	-	35,274	15,210	54,770	-	-	54,770
37,323	-	22,536	61,936	126,710	-	-	126,710
-	-	504	-	61,802	-	-	61,802
-	-	-	-	204,414	-	-	204,414
-	-	11,256	550	621,420	-	-	621,420
-	-	6,486	-	403,731	-	-	403,731
-	-	-	-	11,209	-	-	11,209
-	-	12,092	18,938	43,390	-	-	43,390
-	44,010	344	-	47,112	-	-	47,112
-	1,106	383	-	110,391	-	-	110,391
-	-	5,786	90	5,879	-	-	5,879
-	7,119	3	-	243,620	-	-	243,620
-	-	-	-	-	587,760	-	587,760
37,323	52,235	94,664	96,724	1,934,448	587,760	-	2,522,208
4,697	(10,554)	40,376	5,385	191,504	(587,760)	-	(396,256)
-	-	-	-	-	486,230	-	486,230
-	-	-	-	-	74,009	-	74,009
-	-	-	-	-	5,095	-	5,095
-	-	-	-	-	467	-	467
-	-	-	-	-	(565,801)	-	(565,801)
4,881	30,000	18,960	10,659	161,103	587,715	-	748,818
(3,160)	(3,425)	(50,951)	(3,495)	(297,088)	-	-	(297,088)
1,721	26,575	(31,991)	7,164	(135,985)	587,715	-	451,730
6,418	16,021	8,385	12,549	55,519	(45)	-	55,474
36,344	250,766	101,006	24,789	970,348	109	-	970,457
$42,762	$266,787	$109,391	$ 37,338	$1,025,867	$ 64	$ -	$1,025,931

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, 2012
(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	88,104	86,980	(1,124)	230	250	20
Boating	-	-	-	-	-	-
Vehicle registration fee tax	21,577	34,311	12,734	-	-	-
State vehicle weight tax	34,676	58,679	24,003	-	-	-
Rental/tour vehicle surcharge tax	30,852	44,987	14,135	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	11,300	12,648	1,348
Environmental response tax	-	-	-	-	3,944	3,944
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	175,209	224,957	49,748	12,530	17,842	5,312
Non-taxes:						
Interest and investment income	12,000	1,186	(10,814)	1,248	917	(331)
Charges for current services	79,931	2,222	(77,709)	23,842	25,548	1,706
Intergovernmental	37,702	48,660	10,958	12,249	21,469	9,220
Rentals	-	1,000	1,000	2,880	8,518	5,638
Fines, forfeitures, and penalties	1,408	2,010	602	38	133	95
Licenses and fees	1,716	2,047	331	482	525	43
Revenues from private sources	-	-	-	1	2	1
Other	37	54,108	54,071	3,049	4,002	953
Total non-taxes	132,794	111,233	(21,561)	43,789	61,114	17,325
Total revenues	308,003	336,190	28,187	56,319	78,956	22,637
EXPENDITURES:						
General government	-	-	-	4,248	3,994	254
Public safety	-	-	-	7,513	2,741	4,772
Highways	293,703	241,489	52,214	-	-	-
Conservation of natural resources	-	-	-	101,989	63,871	38,118
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	14,630	9,197	5,433
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	7,638	2,275	5,363
Other	210	-	210	-	-	-
Total expenditures	293,913	241,489	52,424	136,018	82,078	53,940
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 14,090	$ 94,701	$ 80,611	$ (79,699)	$ (3,122)	$ 76,577

Health			Human Services		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
5,139	5,197	58	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
17,985	16,828	(1,157)	-	-	-
-	-	-	-	-	-
1,341	1,315	(26)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
24,465	23,340	(1,125)	-	-	-
431	368	(63)	-	5	5
81,137	81,264	127	-	210	210
111,953	125,219	13,266	219,483	177,477	(42,006)
-	-	-	-	-	-
1,097	2,280	1,183	-	-	-
817	841	24	406	71	(335)
39,856	25,569	(14,287)	-	2	2
131	2,489	2,358	-	2,137	2,137
235,422	238,030	2,608	219,889	179,902	(39,987)
259,887	261,370	1,483	219,889	179,902	(39,987)
196	178	18	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
372,510	264,807	107,703	-	-	-
-	-	-	-	-	-
-	-	-	270,890	171,675	99,215
-	-	-	-	-	-
-	-	-	24,138	12,405	11,733
-	-	-	-	-	-
-	-	-	3,939	3,924	15
-	-	-	1,225	1,189	36
-	-	-	-	-	-
372,706	264,985	107,721	300,192	189,193	110,999
$(112,819)	$ (3,615)	$ 109,204	$ (80,303)	$ (9,291)	$ 71,012

(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, 2012
(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	-	-	-		3,944	3,944
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	-	3,944	3,944
Non-taxes:						
Interest and investment income	335	141	(194)	150	95	(55)
Charges for current services	35,030	41,212	6,182	8,823	5,099	(3,724)
Intergovernmental	221,906	265,761	43,855	32,814	26,159	(6,655)
Rentals	40	375	335	2,247	1,348	(899)
Fines, forfeitures, and penalties	-	-	-	-	-	-
Licenses and fees	732	1,294	562	-	-	-
Revenues from private sources	367	128	(239)	200	-	(200)
Other	52,765	14,807	(37,958)	17	517	500
Total non-taxes	311,175	323,718	12,543	44,251	33,218	(11,033)
Total revenues	311,175	323,718	12,543	44,251	37,162	(7,089)
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	621,858	338,852	283,006	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	4,490	3,051	1,439	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	74,833	24,657	50,176
Other	-	-	-	-	-	-
Total expenditures	626,348	341,903	284,445	75,933	24,657	51,276
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (315,173)	$ (18,185)	$ 296,988	$ (31,682)	$ 12,505	$ 44,187

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
450	1,223	773	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,300	1,855	555
450	1,223	773	3,300	3,855	555
230	101	(129)	632	214	(418)
18,000	17,054	(946)	19,358	17,202	(2,156)
46,160	47,318	1,158	2,250	1,961	(289)
-	-	-	-	-	-
300	1,270	970	985	3,354	2,369
-	-	-	12,902	15,456	2,554
-	-	-	-	-	-
6	3,420	3,414	3,003	5,364	2,361
64,696	69,163	4,467	39,130	43,551	4,421
65,146	70,386	5,240	42,430	47,406	4,976
-	-	-	-	-	-
2,840	2,010	830	73,530	40,835	32,695
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
133,413	63,291	70,122	2,021	1,962	59
-	-	-	-	-	-
136,253	65,301	70,952	75,551	42,797	32,754
$ (71,107)	$ 5,085	$ 76,192	$ (33,121)	$ 4,609	$ 37,730

(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, 2012
(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	2,289	537
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,752	2,289	537
Non-taxes:						
Interest and investment income	610	386	(224)	667	240	(427)
Charges for current services	1	77	76	44,155	53,474	9,319
Intergovernmental	8,000	4,188	(3,812)	18,772	55,514	36,742
Rentals	9,083	12,095	3,012	6,235	6,460	225
Fines, forfeitures, and penalties	-	-	-	303	253	(50)
Licenses and fees	-	-	-	15,958	17,833	1,875
Revenues from private sources	-	3,000	3,000	1,850	1,438	(412)
Other	4,660	5,232	572	13,031	7,437	(5,594)
Total non-taxes	22,354	24,978	2,624	100,971	142,649	41,678
Total revenues	22,354	24,978	2,624	102,723	144,938	42,215
EXPENDITURES:						
General government	-	-	-	80,690	45,845	34,845
Public safety	-	-	-	30,710	23,963	6,747
Highways	-	-	-	47	47	-
Conservation of natural resources	-	-	-	636	322	314
Health	-	-	-	-	-	-
Hospitals	-	-	-	-	-	-
Welfare	-	-	-	15,778	11,212	4,566
Lower education	-	-	-	7,000	6,484	516
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	15,235	10,917	4,318
Urban redevelopment and housing	43,683	24,833	18,850	-	-	-
Economic development and assistance	-	-	-	406	385	21
Other	-	-	-	17,051	6,098	10,953
Total expenditures	43,683	24,833	18,850	167,553	105,273	62,280
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (21,329)	$ 145	$ 21,474	$ (64,830)	$ 39,665	$104,495

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)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	88,334	87,230	(1,104)
1,500	1,612	112	1,500	1,612	112
-	-	-	26,716	39,508	12,792
-	-	-	34,676	58,679	24,003
-	-	-	30,852	44,987	14,135
-	-	-	450	1,223	773
-	-	-	1,752	2,289	537
-	-	-	29,285	29,476	191
-	-	-	-	7,888	7,888
-	-	-	2,341	2,315	(26)
-	-	-	2,000	2,000	-
-	-	-	1,300	1,855	555
1,500	1,612	112	219,206	279,062	59,856
276	109	(167)	16,579	3,762	(12,817)
17,400	21,583	4,183	327,677	264,945	(62,732)
24,350	67,025	42,675	735,639	840,751	105,112
2,000	2,769	769	22,485	32,565	10,080
2,403	2,373	(30)	6,534	11,673	5,139
510	357	(153)	33,523	38,424	4,901
35	2	(33)	42,309	30,141	(12,168)
7,820	16,705	8,885	84,519	116,218	31,699
54,794	110,923	56,129	1,269,265	1,338,479	69,214
56,294	112,535	56,241	1,488,471	1,617,541	129,070
18,539	14,820	3,719	103,673	64,837	38,836
138,699	72,931	65,768	254,392	142,480	111,912
-	-	-	293,750	241,536	52,214
-	-	-	102,625	64,193	38,432
-	-	-	372,510	264,807	107,703
-	-	-	-	-	-
550	549	1	287,218	183,436	103,782
-	-	-	628,858	345,336	283,522
-	-	-	24,138	12,405	11,733
18,107	12,983	5,124	52,462	36,148	16,314
-	-	-	47,622	28,757	18,865
-	-	-	219,536	93,759	125,777
-	-	-	17,261	6,098	11,163
175,895	101,283	74,612	2,404,045	1,483,792	920,253
$ (119,601)	$ 11,252	$ 130,853	$ (915,574)	$ 133,749	$ 1,049,323

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2012
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$ 133,749
RESERVE FOR ENCUMBRANCES AT YEAR-END*	279,362
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES	(388,221)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS	(17,366)
EXPENDITURES FOR DEBT SERVICE PAID OUT OF OTHER GOVERNMENTAL FUNDS	(587,760)
TRANSFERS	151,755
ACCRUED LIABILITIES	(424,670)
ACCRUED REVENUES	456,895
DEFICIENCY OF REVENUES UNDER EXPENDITURES — GAAP basis	$ (396,256)

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

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012
(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	$ -	$ 107,108	$ 45,684	$ 152,792
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $0)	32	744	90	866
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	29,834	5,054	34,888
Federal government	-	-	240	240
Premiums	32,788	-	-	32,788
Other	2,103	404	684	3,191
Prepaid expenses and other assets	16,710	-	-	16,710
Total current assets	51,633	138,090	51,752	241,475
CAPITAL ASSETS				
Equipment	13,760	78	1,237	15,075
	13,760	78	1,237	15,075
Less accumulated depreciation	(7,578)	(41)	(968)	(8,587)
Net capital assets	6,182	37	269	6,488
Promissory note receivable	-	294,648	69,103	363,751
Other	-	9,617	5,843	15,460
Total noncurrent assets	6,182	304,302	75,215	385,699
TOTAL ASSETS	$ 57,815	$ 442,392	$ 126,967	$ 627,174

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012
(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	$ 432	$ 69	$ 201	$ 702
Other accrued liabilities	1,633	-	-	1,633
Accrued vacation, current portion	64	72	34	170
Benefits claims payable	7,486	-	-	7,486
Premiums payable	38,974	-	-	38,974
Total current liabilities	48,589	141	235	48,965
NONCURRENT LIABILITIES:				
Accrued vacation	187	213	99	499
Other postemployment benefit liability	1,054	844	328	2,226
TOTAL	49,830	1,198	662	51,690
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	6,182	37	269	6,488
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	441,157	126,036	567,193
UNRESTRICTED	1,803	-	-	1,803
TOTAL NET ASSETS	$ 7,985	$ 441,194	$ 126,305	$ 575,484

(Concluded)

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STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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	$ 5,855	$ 1,777	$ 2,421	$ 10,053
Premium revenue — self insurance	152,435	-	-	152,435
Other	2,773	2,905	275	5,953
Total operating revenues	161,063	4,682	2,696	168,441
OPERATING EXPENSES:				
Personnel services	2,460	1,596	947	5,003
Depreciation	1,050	3	97	1,150
Repairs and maintenance	6	1	77	84
General administration	2,274	126	1,775	4,175
Claims	150,489	-	-	150,489
Other	861	67	23	951
Total operating expenses	157,140	1,793	2,919	161,852
Operating income	3,923	2,889	(223)	6,589
NONOPERATING REVENUES (EXPENSE):				
Interest and investment income	270	155	147	572
Other	5,975	-	(13,289)	(7,314)
Total nonoperating revenues (expenses)	6,245	155	(13,142)	(6,742)
INCOME BEFORE CAPITAL CONTRIBUTIONS	10,168	3,044	(13,365)	(153)
CAPITAL CONTRIBUTIONS:	-	8,811	8,356	17,167
CHANGE IN NET ASSETS	10,168	11,855	(5,009)	17,014
NET ASSETS — Beginning of year	(2,183)	429,339	131,314	558,470
				-
NET ASSETS — End of year	$ 7,985	$ 441,194	$ 126,305	$ 575,484

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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	$ 500,858	$ -	$ -	$ 500,858
Cash paid to suppliers	(2,169)	(191)	(2,048)	(4,408)
Cash paid to employees	(2,142)	(1,418)	(826)	(4,386)
Cash paid for premiums and benefit payments	(510,786)	-	-	(510,786)
Reserves returned by insurance carriers	(2,261)	-	-	(2,261)
Interest income from notes receivable	-	2,895	284	3,179
Administrative loan fees	-	1,757	2,491	4,248
Principal repayments on notes receivable	-	27,615	5,075	32,690
Disbursement of notes receivable proceeds	-	(48,510)	(3,353)	(51,863)
Net cash provided by (used in) operating activities	(16,500)	(17,852)	1,623	(32,729)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State capital contributions	-	3,157	2,715	5,872
Proceeds from federal operating grants	-	24,918	5,544	30,462
Disbursement of federal operating grant	-	(7,240)	(789)	(8,029)
Other	5,975	-	-	5,975
Net cash provided by noncapital financing activities	5,975	20,835	7,470	34,280
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES - Acquisition and construction of capital assets	(15)	(40)	(32)	(87)
CASH FLOWS FROM INVESTING ACTIVITIES — Interest received and loss from investments	335	226	161	722
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,205)	3,169	9,222	2,186
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	10,205	103,939	36,462	150,606
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ -	$ 107,108	$ 45,684	$ 152,792

(Continued)

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STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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	$ 3,923	$ 2,889	$ (223)	$ 6,589
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation	1,050	3	97	1,150
Premium reserves held by insurance companies	(2,288)	-	-	(2,288)
Principal forgiveness of loan	-	(2,000)	-	(2,000)
Increase in assets:				-
Receivables	(362)	(18,923)	1,800	(17,485)
Deposits	(4,958)	-	-	(4,958)
Increase in liabilities:				
Vouchers and contracts payable	112	(44)	(178)	(110)
Other accrued liabilities	20,037	223	127	20,387
Accrued interest on loans receivable	(34,014)	-	-	(34,014)
Net cash provided by (used in) operating activities	$ (16,500)	$ (17,852)	$ 1,623	$ (32,729)

(Concluded)

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STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2012
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 5,541	$ 443,341	$ 29,582	$ 478,464
RECEIVABLES — taxes	-	-	33,444	33,444
INVESTMENTS	6,772	42,660	43,100	92,532
OTHER ASSETS - primarily due from individuals, businesses, and counties	46,169	48,378	-	94,547
TOTAL ASSETS	$ 58,482	$ 534,379	$ 106,126	$ 698,987
LIABILITIES				
VOUCHERS PAYABLE	$ 58,482	$ 74	$ 65	$ 58,621
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	534,305	106,061	640,366
TOTAL LIABILITIES	$ 58,482	$ 534,379	$ 106,126	$ 698,987

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Amounts in thousands)

	Balance — July 1, 2011	Additions	Deductions	Balance — June 30, 2012
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 11,983	$ 7,146,487	$ (7,152,929)	$ 5,541
Due from individuals, businesses, and counties	35,006	7,157,649	(7,146,486)	46,169
Investments	19,551	6,772	(19,551)	6,772
Total assets	$ 66,540	$ 14,310,908	$ (14,318,966)	$ 58,482
Liabilities:				
Vouchers payable	$ 66,540	$ 58,482	$ (66,540)	$ 58,482
Due to individuals, businesses, and counties	-	-	-	-
Total liabilities	$ 66,540	$ 58,482	$ (66,540)	$ 58,482
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 350,959	$ 4,243,963	$ (4,151,581)	$ 443,341
Due from individuals, businesses, and counties	48,055	433,168	(432,845)	48,378
Investments	33,852	42,660	(33,852)	42,660
Total assets	$ 432,866	$ 4,719,791	$ (4,618,278)	$ 534,379
Liabilities:				
Vouchers payable	$ 437	$ 74	$ (437)	$ 74
Due to individuals, businesses, and counties	432,429	4,325,900	(4,224,024)	534,305
Total liabilities	$ 432,866	$ 4,325,974	$ (4,224,461)	$ 534,379
OTHER:				
Assets:				
Cash and cash equivalents	$ 28,724	$ 33,480	$ (32,622)	$ 29,582
Receivables	8,584	33,444	(8,584)	33,444
Investments	56,858	43,102	(56,860)	43,100
Total assets	$ 94,166	$ 110,026	$ (98,066)	$ 106,126
Liabilities:				
Vouchers payable	$ 4,380	$ 65	$ (4,380)	$ 65
Due to individuals, businesses, and counties	89,786	58,340	(42,065)	106,061
Total liabilities	$ 94,166	$ 58,405	$ (46,445)	$ 106,126
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 391,666	$ 11,423,930	$ (11,337,132)	$ 478,464
Receivables	8,584	33,444	(8,584)	33,444
Due from individuals, businesses, and counties	83,061	7,590,817	(7,579,331)	94,547
Investments	110,261	92,534	(110,263)	92,532
Total assets	$ 593,572	$ 19,140,725	$ (19,035,310)	$ 698,987
Liabilities:				
Vouchers payable	$ 71,357	$ 58,621	$ (71,357)	$ 58,621
Due to individuals, businesses, and counties	522,215	4,384,240	(4,266,089)	640,366
Total liabilities	$ 593,572	$ 4,442,861	$ (4,337,446)	$ 698,987

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 financial statements, note disclosures, and required supplementary information on the State's overall financial health.

Contents **Page**

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

	For the Fiscal Year Ended June 30,				
	2012	2011	2010	2009	2008
Governmental Activities:					
Invested in capital assets, net of related debt	$ 2,794,481	$ 3,326,245	$ 3,118,606	$ 3,298,144	$ 3,987,244
Restricted	930,294	917,730	655,238	641,031	909,877
Unrestricted	(2,394,874)	(2,384,187)	(1,306,716)	(471,543)	121,480
Total governmental activities net assets	$ 1,329,901	$ 1,859,788	$ 2,467,128	$ 3,467,632	$ 5,018,601
Business-Type Activities:					
Invested in capital assets, net of related debt	$ 1,560,267	$ 1,476,136	$ 1,469,676	$ 1,527,018	$ 1,458,305
Restricted	966,042	956,894	922,846	782,569	730,061
Unrestricted	649,583	579,383	493,163	597,624	1,013,447
Total business-type activities net assets	$ 3,175,892	$ 3,012,413	$ 2,885,685	$ 2,907,211	$ 3,201,813
Primary Government:					
Invested in capital assets, net of related debt	$ 4,354,748	$ 4,802,381	$ 4,588,282	$ 4,825,162	$ 5,445,549
Restricted	1,896,336	1,874,624	1,578,084	1,423,600	1,639,938
Unrestricted	(1,745,291)	(1,804,804)	(813,553)	126,081	1,134,927
Total primary government net sssets	$ 4,505,793	$ 4,872,201	$ 5,352,813	$ 6,374,843	$ 8,220,414

STATE OF HAWAII

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

	For the Fiscal Year Ended June 30,				
	2012	2011	2010	2009	2008
Expenses:					
Governmental activities:					
General government	$ 552,788	$ 535,434	$ 421,327	$ 564,356	$ 548,439
Public safety	502,002	471,459	538,110	464,897	414,463
Highways	516,924	450,548	466,322	487,391	490,754
Conservation of natural resources	96,349	89,021	81,561	119,705	74,411
Health	773,288	816,525	858,476	843,826	895,413
Welfare	2,464,582	2,553,829	2,348,190	2,140,202	1,877,188
Lower education	2,598,444	2,545,980	2,616,768	2,656,592	2,385,056
Higher education	672,716	707,381	700,335	878,126	815,116
Other education	16,753	14,018	14,034	29,935	23,206
Culture and recreation	111,628	108,697	108,247	106,583	107,676
Urban redevelopment and housing	23,888	66,144	101,505	145,710	187,861
Economic development and assistance	209,460	238,315	209,611	158,808	157,421
Interest expense	243,938	239,836	210,243	127,576	140,032
Total governmental activities expenses	8,782,760	8,837,187	8,674,729	8,723,707	8,117,036
Business-type activities:					
Airports	353,541	354,368	336,127	347,089	354,554
Harbors	84,826	80,355	68,291	124,611	80,344
Unemployment compensation	468,610	561,548	686,141	437,553	159,098
Nonmajor proprietary fund	169,166	250,346	256,205	38,672	22,619
Total business-type activities expenses	1,076,143	1,246,617	1,346,764	947,925	616,615
Total Primary Government Expenses	$ 9,858,903	$10,083,804	$10,021,493	$ 9,671,632	$ 8,733,651
Program Revenues:					
Governmental activities					
Charges for services:					
General government	$ 266,878	$ 270,078	$ 231,629	$ 206,431	$ 203,336
Health	32,339	46,215	98,547	99,788	102,032
Other	121,928	112,479	111,295	119,126	101,390
Operating grants and contributions	2,370,437	2,837,464	2,598,141	2,260,551	1,887,298
Capital grants and contributions	97,322	132,825	144,445	145,771	130,643
Total governmental activities program revenues	2,888,904	3,399,061	3,184,057	2,831,667	2,424,699
Business-type activities —					
Charges for services:					
Airports	343,279	387,484	324,577	290,464	266,820
Unemployment	533,963	535,243	486,476	169,976	87,486
Others	272,317	341,707	344,889	84,692	95,013
Capital grants and contributions	85,899	75,324	98,099	103,195	81,967
Total business-type activities program revenues	1,235,458	1,339,758	1,254,041	648,327	531,286
Total Primary Government Program Revenues	$ 4,124,362	$ 4,738,819	$ 4,438,098	$ 3,479,994	$ 2,955,985
Net (Expense) Revenue:					
Governmental activities	$ (5,893,856)	$ (5,438,126)	$ (5,490,672)	$(5,892,040)	$(5,692,337)
Business-type activities	159,315	93,141	(92,723)	(299,598)	(85,329)
Total Primary Government Net Expenses	$ (5,734,541)	$ (5,344,985)	$ (5,583,395)	$(6,191,638)	$(5,777,666)
General Revenues and Other Changes in Net Assets:					
Governmental activities					
Taxes:					
General excise tax	$ 2,774,636	$ 2,507,980	$ 2,279,310	$ 2,410,756	$ 2,597,121
Net income tax — corporations and individuals	1,633,085	1,477,624	1,408,965	1,366,576	1,634,117
Public service companies tax	150,528	117,940	157,661	126,069	127,481
Transient accommodations tax	138,529	60,839	32,635	14,408	17,756
Tobacco and liquor taxes	170,824	173,851	149,596	135,388	134,886
Liquid fuel tax	88,842	91,265	82,780	88,006	90,123
Tax on premiums of insurance companies	119,472	140,586	105,848	95,181	96,332
Vehicle weight and registration tax	98,187	59,476	58,659	59,392	60,842
Rental motor/tour vehicle surcharge tax	106,417	43,892	40,401	39,751	49,196
Franchise tax	7,229	33,682	20,666	28,075	20,213
Others	70,873	67,799	32,165	19,215	26,149
Interest and investment income	5,347	55,852	124,516	(42,051)	112,024
Other	-	-	(3,034)	305	106
Total governmental activities	5,363,969	4,830,786	4,490,168	4,341,071	4,966,346
Business-type activities:					
Interest and investment income	4,164	33,587	68,950	4,639	48,893
Other	-	-	-	-	-
Total business-type activities	4,164	33,587	68,950	4,639	48,893
Total Primary Government	$ 5,368,133	$ 4,864,373	$ 4,559,118	$ 4,345,710	$ 5,015,239
Changes in Net Assets:					
Governmental activities	$ (529,887)	$ (607,340)	$ (1,000,504)	$(1,550,969)	$ (725,991)
Business-type activities	163,479	126,728	(23,773)	(294,959)	(36,436)
Total Primary Government	$ (366,408)	$ (480,612)	$ (1,024,277)	$(1,845,928)	$ (762,427)

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,				
	2012	2011	2010	2009	2008
General Fund:					
Reserved	N/A	N/A	$ 243,485	$ 272,557	$ 406,884
Unreserved	N/A	N/A	(210,551)	(87,537)	567,474
Total General Fund	N/A	N/A	$ 32,934	$ 185,020	$ 974,358
All Other Governmental Funds:					
Reserved	N/A	N/A	$ 2,275,968	$ 2,801,012	$ 2,344,961
Unreserved, reported in:					
Capital Projects Fund	N/A	N/A	(1,651,855)	(2,019,696)	(1,788,357)
Special Revenue Funds	N/A	N/A	293,625	255,844	410,265
Total All Other Governmental Funds	N/A	N/A	$ 917,738	$ 1,037,160	$ 966,869
General Fund (Under GASB 54):					
Assigned Fund Balance	$ 236,779	$ 210,164	N/A	N/A	N/A
Unassigned Fund Balance	570,659	346,882	N/A	N/A	N/A
Total General Fund	$ 807,438	$ 557,046	N/A	N/A	N/A
All Other Governmental Funds (Under GASB 54):					
Restricted Fund Balance	$ 109	$ 21,582	N/A	N/A	N/A
Committed Fund Balance	518,374	600,125	N/A	N/A	N/A
Assigned Fund Balance	532,466	339,337	N/A	N/A	N/A
Unassigned Fund Balance	$ (408,575)	(766,665)	N/A	N/A	N/A
Total All Other Governmental Funds	$ 642,374	$ 194,379	N/A	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,				
	2012	2011	2010	2009	2008
Revenues:					
Taxes:					
General excise tax	$ 2,774,636	$ 2,507,980	$ 2,279,310	$ 2,410,756	$ 2,597,121
Net income tax — corporations and individuals	1,633,412	1,473,188	1,408,965	1,373,893	1,637,265
Public service companies tax	150,528	117,940	157,661	126,069	127,481
Transient accommodations tax	138,529	60,839	32,635	14,408	17,756
Tobacco and liquor taxes	170,824	173,851	149,596	135,388	134,886
Liquid fuel tax	88,842	91,265	82,780	88,006	90,123
Tax on premiums of insurance companies	119,472	140,586	105,848	95,181	96,332
Vehicle weight and registration tax	98,187	59,476	58,659	59,392	60,842
Rental motor/tour vehicle surcharge tax	106,417	43,892	40,401	39,751	49,196
Franchise tax	7,229	33,682	20,666	28,075	20,213
Other	70,873	67,799	32,165	19,215	26,149
Total taxes	5,358,949	4,770,498	4,368,686	4,390,134	4,857,364
Interest and investment income (loss)	5,347	55,854	124,518	(42,051)	115,247
Charges for current services	337,765	348,108	364,893	357,078	341,371
Intergovernmental	2,238,639	2,567,266	2,432,369	2,090,058	1,807,376
Rentals	25,421	23,319	19,712	21,107	20,152
Fines, forfeitures, and penalties	35,083	34,712	35,982	33,888	32,618
Licenses and fees	46,390	41,557	36,641	33,324	31,731
Revenues from private sources	65,085	54,857	57,850	63,401	59,508
Other	152,091	343,318	182,367	246,369	131,291
Total revenues	8,264,770	8,239,489	7,623,018	7,193,308	7,396,658
Expenditures:					
Current:					
General government	487,596	487,848	436,290	597,210	537,541
Public safety	454,957	423,716	457,058	435,414	411,152
Highways	414,629	376,780	442,971	442,421	406,795
Conservation of natural resources	98,428	93,600	88,873	120,693	103,596
Health	729,841	757,482	801,923	798,026	863,914
Welfare	2,443,936	2,526,743	2,315,726	2,119,481	1,857,473
Lower education	2,330,130	2,208,303	2,325,066	2,454,668	2,201,901
Higher education	672,716	707,380	700,335	878,127	815,116
Other education	16,753	14,018	14,033	29,912	23,206
Culture and recreation	109,974	117,306	108,536	107,302	110,404
Urban redevelopment and housing	48,484	135,141	115,796	179,819	255,783
Economic development and assistance	147,445	158,104	166,320	169,547	149,075
Other	58,241	12,223	28,613	3,084	5,880
Debt service					
Principal	313,721	191,244	179,624	204,604	231,478
Interest and others	274,039	266,737	248,551	197,118	247,257
Total Expenditures	8,600,890	8,476,625	8,429,715	8,737,426	8,220,571
Deficiency of Revenues Over Expenditures	(336,120)	(237,136)	(806,697)	(1,544,118)	(823,913)
Other Financing Sources (Uses):					
Proceeds from borrowing and refunding	1,600,308	-	1,150,482	1,174,768	445,687
Payments to escrow agent	(565,801)	-	(619,708)	(349,697)	(29,510)
Transfers in	950,717	921,433	721,810	761,393	803,456
Transfers out	(950,717)	(921,433)	(721,810)	(761,393)	(803,456)
Other	-	37,889	4,415	-	-
Total Other Financing Sources	1,034,507	37,889	535,189	825,071	416,177
Net Change in Fund Balances	$ 698,387	$ (199,247)	$ (271,508)	$ (719,047)	$ (407,736)
Debt service as a percentage of noncapital expenditures	7.3 %	5.7 %	5.6 %	4.8 %	6.2 %

STATE OF HAWAII

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

	For the Fiscal Year Ended June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Farm Earnings	$ 288	$ 288	$ 250	$ 232	$ 220	$ 213	$ 210	$ 213	$ 221	$ 217
Nonfarm Wage and Salary Workers:										
Goods-producing industries:										
Forestry, fishing-related activities, and other	60	42	45	36	47	42	53	54	56	65
Mining	35	33	51	44	45	55	53	50	45	37
Construction	3,046	2,843	2,598	2,714	3,271	3,188	3,004	2,736	2,231	2,067
Manufacturing – durable and nondurable goods	767	768	766	807	874	1,003	1,000	916	887	753
Subtotal Goods-Producing Industries	3,908	3,686	3,460	3,601	4,237	4,288	4,110	3,756	3,219	2,922
Service-producing industries										
Transportation, communication, and utilities	1,889	1,783	1,718	1,714	1,826	1,926	1,831	1,760	1,631	1,474
Trade	3,768	3,666	3,651	3,636	3,817	3,654	3,540	3,366	3,151	2,983
Information	645	711	732	657	711	759	758	690	694	650
Finance, insurance, and real estate	2,329	2,081	2,014	2,044	2,126	2,311	2,367	2,308	2,155	1,957
Service	15,438	15,075	14,901	14,514	14,723	13,611	13,013	12,226	11,592	10,622
State and local government	5,425	5,327	5,609	5,609	5,372	5,023	4,747	4,443	4,101	3,862
Federal government	10,094	9,531	9,252	9,077	8,258	7,745	7,249	6,751	6,280	5,716
Subtotal Service-Producing Industries	39,588	38,174	37,877	37,251	36,833	35,029	33,505	31,544	29,604	27,264
Total Nonfarm Wage and Salary Workers	43,496	41,860	41,337	40,852	41,070	39,317	37,615	35,300	32,823	30,186
Other(1)	16,144	15,981	14,661	13,329	12,891	10,601	9,514	8,598	7,984	7,433
Total Personal Income	$59,928	$58,129	$56,248	$54,413	$54,181	$50,131	$47,339	$44,111	$41,028	$37,836
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
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
2007	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

PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
CALENDAR YEARS 2006 AND 1999

2006

Income Level(1)	Number of Filers(2)	Percentage of total	Personal Income Tax Liability	Percentage of Total
Under $5,000	36,968	7.0 %	$ 975,091	0.1 %
$5,000–$10,000	48,434	9.2	6,256,133	0.4
$10,000–$20,000	87,084	16.5	40,332,199	2.6
$20,000–$30,000	77,271	14.7	77,913,432	5.0
$30,000–$40,000	62,144	11.8	95,268,983	6.1
$40,000–$50,000	43,425	8.3	89,482,585	5.7
$50,000–$75,000	72,305	13.7	209,998,273	13.5
$75,000–$100,000	41,275	7.8	173,571,460	11.1
$100,000 and over	57,947	11.0	863,922,316	55.5
	526,853	100.0 %	$ 1,557,720,472	100.0 %

1999

Income Level(1)	Number of Filers(2)	Percentage of total	Personal Income Tax Liability	Percentage of Total
Under $5,000	44,672	9.6 %	$ 1,336,390	0.1 %
$5,000–$10,000	54,505	11.7	8,114,219	0.8
$10,000–$20,000	88,968	19.0	46,173,613	4.7
$20,000–$30,000	74,230	15.9	81,860,752	8.3
$30,000–$40,000	50,509	10.8	84,056,955	8.5
$40,000–$50,000	37,369	8.0	81,468,836	8.2
$50,000–$75,000	59,469	12.7	182,083,159	18.3
$75,000–$100,000	28,243	6.0	128,502,791	12.9
$100,000 and over	29,573	6.3	379,881,765	38.2
	467,538	100.0 %	$ 993,478,480	100.0 %

(1) Income Level = Hawaii Adjusted Gross Income.
(2) Number of Filers = All resident returns and taxable nonresident returns filed.

Source: State of Hawaii, Department of Taxation, Tax Research & Planning Office

Note: Calendar year 2006 is the most recent year available.

STATE OF HAWAII

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

	For the Fiscal Year Ended June 30, 2012				
	2012	2011	2010	2009	2008
Taxable Sales by Activities:					
Retailing	$ 29,095	$ 25,887	$ 23,919	$ 24,318	$ 26,183
Services	12,696	11,944	11,154	11,059	11,073
Contracting	6,253	5,687	5,864	7,631	7,863
Hotel rentals	3,431	3,024	2,606	2,812	3,321
All other rentals	6,154	5,999	5,778	6,094	5,818
All other (4%)	5,160	4,825	4,360	4,375	5,238
Subtotal	62,789	57,366	53,681	56,289	59,496
Producing	401	370	340	405	457
Manufacturing	681	698	704	809	761
Wholesaling	14,442	13,121	12,207	12,502	13,746
Use (1/2%)	8,005	6,669	6,430	6,883	7,215
Services (Intermediary)	653	577	572	611	649
Insurance solicitors	477	480	502	535	544
Subtotal	24,659	21,915	20,755	21,745	23,372
Total All Activities	$ 87,448	$ 79,281	$ 74,436	$ 78,034	$ 82,868

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)

	2012		2011		2010		2009		2008	
	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	$1,163,805	43.1 %	$1,035,465	41.5 %	$ 956,761	41.3 %	$ 972,728	40.1 %	$1,047,340	40.0 %
Services	507,864	18.8 %	477,753	19.3%	446,142	19.3 %	442,356	18.3 %	442,909	16.9 %
Contracting	250,122	9.3 %	227,497	9.1%	234,562	10.1 %	305,241	12.6 %	314,538	12.2 %
Theater, amusement, etc.	15,776	0.6 %	14,945	0.6%	13,378	0.6 %	13,557	0.6 %	13,998	0.5 %
Interest	4	0.0 %	74	-	191	.0 %	339	.0 %	7,963	0.3 %
Commissions	38,848	1.4 %	36,574	1.5%	33,024	1.4 %	35,230	1.5 %	42,500	1.6 %
Hotel rentals	137,222	5.1 %	120,954	4.8%	104,260	4.5 %	112,484	4.6 %	132,841	5.1 %
All other rentals	246,151	9.1 %	239,944	9.6%	231,123	10.0 %	243,762	10.1 %	232,718	8.9 %
Use (4%)	41,797	1.6 %	37,316	1.5%	34,484	1.5 %	34,088	1.4 %	39,034	1.5 %
All other (4%)	109,989	4.1 %	104,073	4.2%	93,327	4.0 %	91,761	3.8 %	106,040	4.0 %
Pineapple canning	-	- %	-	-	-	.0 %	-	.0 %	-	.0 %
Producing	2,004	0.1 %	1,850	0.1%	1,697	0.1 %	2,023	0.1 %	2,286	0.1 %
Manufacturing	3,402	0.1 %	3,488	0.1%	3,517	0.2 %	4,045	0.2 %	3,804	0.1 %
Wholesaling	72,210	2.7 %	65,608	2.6%	61,036	2.6 %	62,509	2.6 %	68,730	2.6 %
Use (1/2%)	40,026	1.5 %	33,347	1.3%	32,152	1.4 %	34,415	1.4 %	36,073	1.4 %
Services (Intermediary)	3,265	0.1 %	2,886	0.1%	2,862	0.1 %	3,054	0.1 %	3,242	0.1 %
Insurance solicitors	716	0.0 %	721	-	753	.0 %	803	.0 %	815	.0 %
Unallocated collections	64,750	2.4 %	93,312	3.7%	67,165	2.9 %	61,855	2.6 %	123,953	4.7 %
Total	$2,697,951	100.0 %	$2,495,807	100.0 %	$2,316,434	100.0 %	$2,420,250	100.0 %	$2,618,784	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, 2012				
	2012	2011	2010	2009	2008
Governmental Activities:					
General obligation bonds	$ 5,475,348	$ 4,987,544	$ 5,157,198	$ 4,779,666	$ 4,408,572
Revenue bonds	468,180	378,625	400,215	420,605	268,425
Capital leases	95,340	100,520	64,385	71,685	75,480
Total Governmental Activities	6,038,868	5,466,689	5,621,798	5,271,956	4,752,477
Business-Type Activities:					
General obligation bonds	34,611	36,221	37,362	38,329	38,357
Revenue bonds	1,370,314	1,410,624	1,248,680	861,423	861,141
Total Business-Type Activities	1,404,925	1,446,845	1,286,042	899,752	899,498
Total Primary Government	$ 7,443,793	$ 6,913,534	$ 6,907,840	$ 6,171,708	$ 5,651,975
Hawaii Total Personal Income	$59,928,000	$58,129,000	$56,248,000	$54,413,000	$54,181,000
Debt as a Percentage of Personal Income	12.4 %	11.8 %	12.3 %	11.3 %	10.4 %
Hawaii Population	1,392	1,375	1,300	1,295	1,287
Amount of Debt Per Capita	$ 5,348	$ 5,003	$ 5,314	$ 4,743	$ 4,392

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 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
2012	$ 87,448,000	1,392	$ 5,509,959	$ 64	$ 5,509,895	6.3 %	$ 3,958
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
2008	82,868,000	1,287	4,408,572	22,002	4,386,570	5.3	3,408

(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, 2012				
	2012	2011	2010	2009	2008
Average General Fund revenues of the three preceding fiscal years	$ 5,197,547	$ 4,992,943	$ 5,032,973	$ 5,126,782	$ 5,083,126
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	961,546	923,694	931,100	948,455	940,378
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2012)	(667,041)	(618,711)	(610,255)	(563,266)	(540,348)
Legal debt margin	$ 294,505	$ 304,983	$ 320,845	$ 385,189	$ 400,030
Legal debt margin as a percentage of the debt limit	30.6 %	33.0 %	34.5 %	40.6 %	42.5 %

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, 2012				
	2012	2011	2010	2009	2008
Revenue Bonds – Airports					
Gross revenue(1)	$ 319,542	$ 322,639	$ 295,087	$ 288,583	$ 307,418
Less: Operating expenses(2)	230,224	218,290	214,208	233,896	239,667
Net available revenue	89,318	104,349	80,879	54,687	67,751
Debt service requirements:					
Principal(3)	30,579	25,370	23,615	22,310	21,140
Interest(4)	34,440	35,319	21,300	17,453	26,076
Total Debt Service	65,019	60,689	44,915	39,763	47,216
Coverage(5)	137 %	172 %	180 %	148 %	143 %
Revenue Bonds – Harbors:					
Gross revenue(6)	$ 104,678	$ 88,018	$ 74,155	$ 80,896	$ 96,256
Less: Operating expenses(7)	41,202	37,650	36,930	47,814	49,229
Net available revenue	63,476	50,368	37,225	33,082	47,027
Debt service requirements	27,770	27,965	23,226	23,167	24,290
Coverage(8)	229 %	180 %	160 %	143 %	194 %
Revenue Bonds – Highways:					
Revenue	$ 232,543	$ 197,142	$ 184,852	$ 189,498	$ 213,378
Less: Operating expenses	173,811	165,857	179,400	189,987	184,097
Net available revenue	58,732	31,285	5,452	(489)	29,281
Debt service:					
Principal	22,465	21,570	20,535	16,150	15,495
Interest	18,906	17,195	18,028	15,823	12,930
Total Debt Service	41,371	38,765	38,563	31,973	28,425
Coverage(9)	142 %	81 %	14 %	(2)%	103 %
Revenue Bonds – Department of Hawaiian Home Lands:					
Revenue	$ 12,078	$ 12,036	$ 11,939	$ -	$ -
Less: Operating expenses	-	-	-	-	-
Net available revenue	12,078	12,036	11,939	-	-
Debt service:					
Principal	680	655	640	-	-
Interest	2,328	2,254	2,370	-	-
Total Debt Service	3,008	2,909	3,010	-	-
Coverage(10)	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 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

	For the Fiscal Year Ended June 30, 2012									
Source	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Population (in thousands):										
State	1,392	1,375	1,300	1,298	1,292	1,299	1,285	1,266	1,253	1,239
Percentage change	1.24%	5.77 %	0.15 %	0.46 %	(0.54)%	1.09 %	1.50 %	1.04 %	1.13 %	0.90 %
National	313,914	311,592	308,746	307,007	304,375	301,580	298,593	295,753	293,046	290,326
Percentage change	0.75 %	0.92 %	0.57 %	0.86 %	0.93 %	1.00 %	0.96 %	0.92 %	0.94 %	0.88 %
Total Personal Income (in millions):										
State	59,928	58,129	56,248	54,413	54,181	50,131	47,339	44,111	41,028	37,836
Percentage change	3.00 %	3.34 %	3.37 %	0.43 %	8.08 %	5.90 %	7.32 %	7.51 %	8.44 %	4.04 %
National	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	9,369,072
Percentage change	3.49 %	1.29 %	4.28 %	(1.72)%	2.91 %	5.54 %	7.44 %	5.52 %	5.97 %	3.47 %
Per Capita Personal Income (in thousands):										
State	43,584	42,276	43,268	42,018	42,099	39,073	37,013	34,788	32,718	30,513
Percentage change	3.00 %	(2.29)%	2.97 %	(0.19)%	7.74 %	5.57 %	6.40 %	6.33 %	7.23 %	3.12 %
National	42,204	40,731	40,584	39,138	40,166	39,392	37,698	35,424	33,881	32,271
Percentage change	3.49 %	0.36 %	3.69 %	(2.56)%	1.96 %	4.49 %	6.42 %	4.45 %	4.99 %	2.57 %
Resident Civilian Labor Force and Employment:										
Civilian labor force employed	615,333	591,329	587,304	594,500	620,000	623,150	622,300	609,850	598,200	592,450
Unemployed	43,321	39,941	41,600	43,250	26,000	17,000	15,800	17,250	19,950	23,850
Unemployment rate	6.60 %	6.30 %	6.60 %	6.80 %	4.00 %	2.70 %	2.50 %	2.80 %	3.20 %	3.90 %

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
LAST SIX FISCAL YEARS

	2012		2011		2010		2009		2008		2007	
Employer	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment
Alexander & Baldwin, Inc.	2,100	0.3 %	2,300	0.4 %	2,215	0.3 %	2,386	0.4 %	2,255	0.4 %	-	- %
Aloha Airgroup, Inc.	-	-	-	-	-	-	-	-	3,399	0.5	3,465	0.5
Bank of Hawaii Corp.	2,451	0.4 %	2,484	0.4	2,418	0.4	N/A	N/A	N/A	N/A	N/A	N/A
First Hawaiian Bank	N/A	N/A	2,231	0.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hawaii Pacific Health	5,728	0.9 %	5,490	0.9	5,344	0.8	5,300	0.9	5,200	0.8	5,200	0.8
Hawaiian Airlines	4,314	0.7 %	4,000	0.6	3,844	0.6	3,700	0.6	3,415	0.5	3,587	0.6
Hawaiian Electric Industries, Inc	3,654	0.6 %	-		3,400	0.5	3,560	0.6	3,519	0.6	3,447	0.5
Hilton Waikoloa Village	N/A	N/A	4,645	0.7	3,200	0.5	2,766	0.5	3,099	0.5	-	-
Kaiser Permanente Hawaii	4,478	0.7 %	4,400	0.7	4,400	0.7	3,396	0.6	4,403	0.7	4,017	0.6
Kamehameha Schools	2,300	0.4 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kyo-ya Co., Ltd.	3,410	0.5 %	3,700	0.6	3,535	0.6	3,851	0.6	3,639	0.6	3,764	0.6
McDonald's Restaurants of Hawaii	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3,775	0.6
NCL America	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4,461	0.7
Outrigger Enterprises Group	2,918	0.4 %	3,103	0.5	3,554	0.6	3,123	0.5	N/A	N/A	N/A	N/A
The Queen's Health System	5,176	0.8 %	5,166	0.8	5,148	0.8	5,059	0.8	4,903	0.8	4,834	0.8
Starwood Hotels and Resort Hawaii	N/A	N/A	N/A	N/A	N/A	N/A	2,425	0.4	2,700	0.4	2,382	0.4

Source: Hawaii Business News, Annual August Issue (Top Ten Largest Private Sector Employers)
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 2012, 2011, 2010, 2009, 2008, 2007 and 2006 totaled 657,400, 631,200, 635,800, 613,700, 632,900, 634,200 and 631,450, respectively.

Listed alphabetically.

STATE OF HAWAII

STATE EMPLOYEES BY FUNCTION
LAST FIVE FISCAL YEARS

	For the Fiscal Year Ended June 30, 2012				
	2012	2011	2010	2009	2008
General government	4,394	4,381	4,381	4,752	4,720
Public safety	2,903	2,864	2,880	3,089	3,011
Transportation	2,202	2,160	2,158	2,290	2,229
Conservation of natural resources	929	941	983	1,146	1,126
Health	6,919	6,876	6,863	7,266	6,730
Welfare	1,800	1,788	1,848	2,404	2,312
Lower education	22,065	21,917	22,090	22,675	22,620
Higher education	8,795	8,687	8,732	9,066	8,705
Other education	454	473	482	516	518
Urban redevelopment and housing	127	130	146	154	150
Economic development and assistance	815	816	835	1,141	865
Total	51,403	51,033	51,398	54,499	52,986

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, 2012				
	2012	2011	2010	2009	2008
General Government					
Tax Commission:					
Total individual net income returns	703,262	747,237	665,057	682,178	678,305
Number of individual net income returns filed electronically	430,421	388,463	322,515	308,366	271,212
Percentage of individual net income returns transmitted electronically	61.20 %	52.00 %	48.00 %	45.20 %	39.98 %
Public Safety					
Inmate population:					
In-state facilities	4,396	4,423	4,047	3,928	6,014
Out-of-state facilities	1,677	1,667	1,940	2,077	2,014
Total	6,073	6,090	5,987	6,005	8,028
Conservation and Natural Resources					
Department of Parks and Recreation:					
Number of state-owned parks	53	53	53	53	53
Health					
Environmental health:					
Air quality sites monitored	12	14	13	14	14
Water quality stations	193	201	290	349	271
Mental health:					
Adult consumers served	11,062	11,194	14,633	15,772	15,586
Individuals with developmental disabilities served	2,558	2,438	2,661	2,879	2,821
Revolving loan funds	120	109	107	102	90
Welfare					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF):					
Families per-month average	10,300	10,014	9,448	8,661	8,358
Average time on assistance	13.5	13.0	15.0	14.0	13.0
Monthly benefits paid for the month of July (in millions)	$ 6.42	$ 6.17	$ 5.29	$ 3.46	$ 4.75
General assistance:					
Individuals per month	5,633	5,298	5,068	5,014	4,458
Food stamp program:					
Number of persons participating	172,676	154,496	133,043	109,268	93,956
Number of households participating	86,418	77,133	66,885	54,925	47,545
Benefits issued (in millions)	$ 37.18	$ 33.42	$ 28.74	$ 20.22	$ 14.64
Medicaid programs:					
MedQuest enrollment (in thousands)	287,902	272,218	259,307	235,203	211,105
Lower Education					
Number of schools	286	287	286	289	287
Number of students	181,213	178,208	178,649	177,871	178,369
Staff:					
Classroom teachers	11,458	11,046	11,262	11,294	11,396
Librarians	199	204	225	249	258
Counselors	627	618	646	660	660
Administrators	806	734	728	747	773
Other support staff	8,975	8,408	8,607	8,654	8,566
Total	22,065	21,010	21,468	21,604	21,653

STATE OF HAWAII

OPERATING INDICATORS BY FUNCTION (CONT'D)
LAST FIVE FISCAL YEARS

	For the Fiscal Year Ended June 30,				
	2012	2011	2010	2009	2008
Higher Education					
Enrollment:					
Number of credit students	60,295	60,330	60,090	57,945	53,526
Degrees earned:					
Certificates/Associate Degrees/Advanced Professional Certificates	3,638	3,324	3,025	2,785	2,660
Bachelor's degrees	4,055	3,796	3,593	3,705	3,698
Master's degrees/Professional Diploma	1,287	1,269	1,216	1,185	1,269
Doctor's degrees/First Professional	494	496	351	354	369
Other	154	103	106	55	-
Total	9,628	8,988	8,291	8,084	7,996
Degrees by campus/college:					
University of Hawaii at Manoa	4,767	4,675	4,414	4,496	4,566
University of Hawaii at Hilo	915	731	601	614	588
University of Hawaii at West Oahu	301	255	242	221	180
Hawaii Community College	452	405	426	386	346
Honolulu Community College	565	559	486	504	520
Kapiolani Community College	987	851	783	702	685
Kauai Community College	196	208	162	163	139
Leeward Community College	721	657	608	503	475
Maui Community College	560	482	416	364	367
Windward Community College	164	165	153	131	130
Total	9,628	8,988	8,291	8,084	7,996

N/A Not available

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, 2012		
	2012	2011	2010
<u>General Government</u>			
Department of Accounting and General Services:			
Buildings	74	74	74
Vehicles	600	592	582
Department of the Attorney General:			
Buildings	5	5	5
Vehicles	3	3	3
The Judiciary:			
Buildings	18	18	18
Vehicles	18	17	16
Other Departments:			
Buildings	24	24	24
Vehicles	4	4	4
<u>Public Safety</u>			
Department of Public Safety:			
Buildings and Correction Facilities	74	74	73
Vehicles	277	278	277
Department of Defense:			
Buildings	97	97	96
Vehicles	112	81	79
Department of Commerce and Consumer Affairs:			
Buildings	4	4	4
Vehicles	-	-	1
<u>Highways</u>			
Department of Transportation:			
Highway lane miles	N/A	N/A	2497
Highway bridges	N/A	N/A	752
Buildings	36	34	34
Vehicles	951	958	968
<u>Conservation of Natural Resources</u>			
Department of Land and Natural Resources:			
Land area (in square miles)	6,423	6423	6423
Buildings	93	95	95
Vehicles	756	758	732
Department of Agriculture:			
Buildings	32	32	32
Vehicles	170	176	186

	For the Fiscal Year Ended June 30, 2012		
	2012	2011	2010
<u>Health</u>			
Department of Health:			
Buildings	74	74	74
Vehicles	252	259	270
<u>Welfare</u>			
Department of Human Services:			
Buildings	18	18	18
Vehicles	107	111	111
<u>Lower Education</u>			
Department of Education:			
Buildings	8	8	8
<u>Other Education</u>			
Department of Education — Libraries:			
Buildings	34	34	34
Vehicles	28	27	28
<u>Urban Redevelopment and Housing</u>			
Department of Hawaiian Home Lands:			
Buildings	18	18	18
Vehicles	33	34	34
<u>Economic Development and Assistance</u>			
Department of Business, Economic Development, and Tourism:			
Buildings	33	33	33
Vehicles	32	33	34
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 2009.

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, 2013

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
November 1, 1993	$250,000,000, Series CH, non-callable	4.750%	November 1, 2013	@	$13,885,000.00	$13,885,000.00
December 1, 1996	$150,000,000, Series CM, non-callable	6.500%	December 1, 2013-2016	@	8,330,000.00	33,320,000.00
February 15, 2002	$319,290,000, Series CY (refunding), non-callable	5.750%	February 1, 2014	@	41,160,000.00	
		5.750%	February 1, 2015	@	43,525,000.00	84,685,000.00
September 16, 2003	$225,000,000 Series DA, callable	4.200%	September 1, 2014	@	4,355,000.00	
		4.300%	September 1, 2015	@	1,475,000.00	
		5.250%	September 1, 2015	@	11,670,000.00	
		4.500%	September 1, 2017	@	180,000.00	
		5.250%	September 1, 2017	@	7,125,000.00	
		4.600%	September 1, 2018	@	625,000.00	
		5.250%	September 1, 2018	@	7,070,000.00	
		5.250%	September 1, 2019	@	8,100,000.00	
		4.750%	September 1, 2020	@	20,000.00	
		5.250%	September 1, 2020	@	8,520,000.00	
		4.800%	September 1, 2021	@	255,000.00	
		5.250%	September 1, 2021	@	8,750,000.00	
		4.900%	September 1, 2022	@	130,000.00	
		5.250%	September 1, 2022	@	9,360,000.00	
		4.900%	September 1, 2023	@	2,340,000.00	
		5.250%	September 1, 2023	@	7,650,000.00	77,625,000.00
September 16, 2003	$188,650,000, Series DB, callable	4.000%	September 1, 2014	@	5,000,000.00	
		5.250%	September 1, 2014	@	15,145,000.00	
		5.250%	September 1, 2015	@	24,150,000.00	
		5.250%	September 1, 2016	@	19,655,000.00	63,950,000.00
May 13, 2004	$225,000,000, Series DD, callable	4.000%	May 1, 2014	@	4,060,000.00	
		5.250%	May 1, 2014	@	8,055,000.00	
		4.125%	May 1, 2015	@	2,295,000.00	
		5.250%	May 1, 2015	@	7,710,000.00	
		4.200%	May 1, 2016	@	790,000.00	
		5.000%	May 1, 2016	@	7,725,000.00	$30,635,000.00

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Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
November 10, 2004	$225,000,000 Series DE, callable	5.000%	October 1, 2014	@	7,420,000.00	
		3.500%	October 1, 2014	@	4,685,000.00	
		5.000%	October 1, 2015	@	11,665,000.00	
		3.600%	October 1, 2015	@	1,020,000.00	24,790,000.00
June 15, 2005	$225,000,000, Series DF, callable	3.600%	July 1, 2014	@	955,000.00	
		5.000%	July 1, 2014	@	10,075,000.00	
		3.625%	July 1, 2015	@	1,800,000.00	
		5.000%	July 1, 2015	@	9,780,000.00	
		3.750%	July 1, 2016	@	60,000.00	
		5.000%	July 1, 2016	@	8,300,000.00	
		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	60,600,000.00
June 15, 2005	$722,575,000, Series DG, callable	5.000%	July 1, 2014	@	83,705,000.00	
		5.000%	July 1, 2015	@	87,995,000.00	
		5.000%	July 1, 2016	@	92,510,000.00	
		5.000%	July 1, 2017	@	97,255,000.00	361,465,000.00
March 23, 2006	$350,000,000, Series DI, callable	3.900%	March 1, 2014	@	1,390,000.00	
		5.000%	March 1, 2014	@	15,130,000.00	
		3.900%	March 1, 2015	@	1,065,000.00	
		4.500%	March 1, 2015	@	4,000,000.00	
		5.000%	March 1, 2015	@	12,270,000.00	
		4.000%	March 1, 2016	@	7,135,000.00	
		5.000%	March 1, 2016	@	11,030,000.00	
		4.000%	March 1, 2017	@	1,705,000.00	
		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	90,340,000.00
April 12, 2007	$350,000,000, Series DJ, callable	3.700%	April 1, 2014	@	2,705,000.00	
		4.500%	April 1, 2014	@	2,450,000.00	
		5.000%	April 1, 2014	@	10,640,000.00	
		3.750%	April 1, 2015	@	2,140,000.00	
		5.000%	April 1, 2015	@	14,395,000.00	
		4.000%	April 1, 2016	@	8,990,000.00	
		4.500%	April 1, 2016	@	2,250,000.00	
		5.000%	April 1, 2016	@	6,095,000.00	
		3.800%	April 1, 2017	@	3,115,000.00	
		4.500%	April 1, 2017	@	375,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		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	236,370,000.00
May 20, 2008	$375,000,000, Series DK, callable	5.000%	May 1, 2014	@	16,130,000.00	
		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	337,570,000.00
May 20, 2008	$29,010,000, Series DL (refunding), non-callable	3.250%	May 1, 2014	@	3,995,000.00	
		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	21,405,000.00
May 20, 2008	$25,000,000, Series DM (taxable), non-callable	4.670%	May 1, 2014	@	4,590,000.00	4,590,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
December 16, 2008	$100,000,000, Series DN, callable	3.500%	August 1, 2014	@	2,435,000.00	
		5.000%	August 1, 2014	@	1,800,000.00	
		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	92,070,000.00
December 16, 2008	$101,825,000, Series DO (refunding), non-callable	3.500%	August 1, 2014	@	8,610,000.00	
		5.000%	August 1, 2014	@	3,750,000.00	
		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	67,545,000.00
December 16, 2008	$26,000,000, Series DP (taxable), non-callable	5.180%	August 1, 2014	@	4,405,000.00	
		5.430%	August 1, 2015	@	4,645,000.00	
		5.680%	August 1, 2016	@	4,910,000.00	13,960,000.00
June 23, 2009	$500,000,000, Series DQ, callable	4.000%	June 1, 2014	@	8,265,000.00	
		5.000%	June 1, 2014	@	6,460,000.00	
		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	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		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	445,785,000.00
June 23, 2009	$225,410,000, Series DR, non-callable	3.000%	June 1, 2014	@	13,960,000.00	
		4.000%	June 1, 2014	@	19,715,000.00	
		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	203,910,000.00
November 5, 2009	$32,000,000, Series DS, tax credit bonds	0.000%	September 15, 2014	@	2,840,000.00	
		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	32,000,000.00
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	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		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
November 24, 2009	$36,425,000, Series DW, non-callable	2.250%	November 1, 2013	@	10,000,000.00	
		4.000%	November 1, 2013	@	11,250,000.00	
		5.000%	November 1, 2013	@	15,175,000.00	36,425,000.00
February 18, 2010	$500,000,000, Series DX, BABs, callable	3.000%	February 1, 2015	@	22,405,000.00	
	(Optional Make-Whole Redemptions)	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	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		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	$56,225,000, Series EC (refunding), non-callable	2.000%	December 1, 2013	@	975,000.00	
		3.000%	December 1, 2013	@	15,000,000.00	
		5.000%	December 1, 2013	@	40,250,000.00	56,225,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
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	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		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, 2082	@	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	26,000,000.00

Total of all State of Hawaii general obligation bonds and general obligation refunding bonds issued and outstanding*	$5,409,110,000.00

*As of October 1, 2013. Does not reflect the expected issuance on November 21, 2013 of $635,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2013, Series EH, $34,515,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2013, Series EI, $58,355,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2013, Series EJ, $27,330,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2013, Series EK, $50,860,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2013, Series EL, $25,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2013, Series EM, and $29,795,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2013, Series EN (Qualified School Construction Bonds–Direct Payment) as described in this Official Statement.

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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. 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. Post trial memoranda are due November 18, 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.

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.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of 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 plaintiffs and the ERS trustees on October 27, 2003. The State cross appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervenor defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

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

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

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 are scheduled to be heard by the First Circuit Court on October 30, 2013. No trial date has yet been set. The State is vigorously contesting liability in this lawsuit.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated November 21, 2013

\$635,000,000 **General Obligation Bonds of 2013, Series EH**	**\$34,515,000** **General Obligation Refunding Bonds of 2013, Series EI**	**\$58,355,000** **General Obligation Refunding Bonds of 2013, Series EJ**
\$27,330,000 **General Obligation Refunding Bonds of 2013, Series EK**	**\$50,860,000** **General Obligation Refunding Bonds of 2013, Series EL**	**\$25,000,000** **Taxable General Obligation Bonds of 2013, Series EM**

\$29,795,000
Taxable General Obligation Bonds of 2013, Series EN
(Qualified School Construction Bonds–Direct Payment)

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 \$635,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2013, Series EH, its \$34,515,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2013, Series EI, its \$58,355,00 State of Hawaii General Obligation Refunding Bonds of 2013, Series EJ, and its \$27,330,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2013, Series EK, its \$50,860,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2013, Series EL, its \$25,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2013, Series EM, and its \$29,795,000 State of Hawaii Taxable General Obligation Bonds of 2013, Series EN (Qualified School Construction Bonds–Direct Payment) (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, 2013, 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 included in Appendix B to the final Official Statement (the "Official Statement") dated November 5, 2013, 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 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.

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 EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds, the Series EL Bonds and the Series EN Bonds or other material events affecting the tax-exempt or tax-advantaged 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 2013, Series EH State of Hawaii General Obligation Refunding Bonds of 2013, Series EI State of Hawaii General Obligation Refunding Bonds of 2013, Series EJ State of Hawaii General Obligation Refunding Bonds of 2013, Series EK State of Hawaii General Obligation Refunding Bonds of 2013, Series EL State of Hawaii Taxable General Obligation Bonds of 2013, Series EM State of Hawaii Taxable General Obligation Bonds of 2013, Series EN (Qualified School Construction Bonds–Direct Payment)
Date of Issuance:	November ___, 2013

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 ___, 2013. [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 21, 2013

State of Hawaii
Honolulu, Hawaii

$635,000,000 **General Obligation Bonds of 2013, Series EH**	**$34,515,000** **General Obligation Refunding Bonds of 2013, Series EI**	**$58,355,000** **General Obligation Refunding Bonds of 2013, Series EJ**
$27,330,000 **General Obligation Refunding Bonds of 2013, Series EK**	**$50,860,000** **General Obligation Refunding Bonds of 2013, Series EL**	**$25,000,000** **Taxable General Obligation Bonds of 2013, Series EM**

$29,795,000
Taxable General Obligation Bonds of 2013, Series EN
(Qualified School Construction Bonds–Direct Payment)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Hawaii (the "State") of $635,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2013, Series EH (the "Series EH Bonds"), $34,515,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2013, Series EI (the "Series EI Bonds"), $58,355,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2013, Series EJ (the "Series EJ Bonds"), $27,330,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2013, Series EK (the "Series EK Bonds"), $50,860,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2013, Series EL (the "Series EL Bonds"), $25,000,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2013, Series EM (the "Series EM Bonds"), and $29,795,000 aggregate principal amount of State of Hawaii Taxable General Obligation Bonds of 2013, Series EN (Qualified School Construction Bonds–Direct Payment) (the "Series EN Bonds," and together with the Series EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds, the Series EL Bonds and the Series EM Bonds, the "Bonds"), pursuant to the provisions of Part I of Chapter 39, Hawaii Revised Statutes, a Certificate of the Director of Finance of the State dated November 5, 2013 (the "Certificate"), and various acts of the Legislature of the State identified in the Certificate.

In such connection, we have reviewed the Certificate, the Tax Certificate of the State, dated the date hereof (the "Tax Certificate"), certificates and opinions of the Attorney General and certificates of other officers of the State, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not (i) cause interest on the Series EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds or the Series EL Bonds to be included in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"), or (ii) cause the Series EN Bonds to fail to qualify as both "qualified school construction bonds" within the meaning of Section 54F of the Code and "specified tax credit bonds" within the meaning of Section 6431 of the Code.

The rights and obligations under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue or waiver severability provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute valid general obligations of the State.

2. The Certificate has been duly executed and delivered by the Director of Finance and constitutes the valid obligation of the State.

3. Interest and principal payments on the Bonds are a first charge on the General Fund of the State to the punctual payment of which the full faith and credit of the State are pledged.

4. Interest on the Series EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL Bonds (including original issue discount treated as interest, if any) is excluded from gross income for federal income tax purposes. Interest on the Series EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL Bonds is not a specific item of tax preference for purposes of the federal alternative tax imposed on individuals and corporations. However, for certain corporations, interest on the Series EH Bonds, the Series EI Bonds, the Series EJ Bonds, the Series EK Bonds and the Series EL Bonds is included in the "adjusted current earnings" (i.e., alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Code), and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

5. Interest on the Series EM Bonds and the Series EN Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Purchasers of the Series EM Bonds and the Series EN Bonds should consult their own tax advisors as to the tax consequences of purchasing or owning the Series EM Bonds and the Series EN Bonds.

6. The Series EN Bonds are "qualified school construction bonds" within the meaning of Section 54F of the Code and are "specified tax credit bonds" within the meaning of Section 6431 of the Code. We note that no tax credit with respect to the Series EN Bonds will be allowed to any holder of a Series EN Bond.

7. Interest on the Bonds is exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer and estate taxes and certain franchise taxes.

In order to ensure compliance with Treasury Circular 230, please note that: (i) this opinion was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; and (ii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Very truly yours,

[To be signed and delivered at Closing by
Kutak Rock LLP]

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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 (%)	Original CUSIP*	Balance CUSIP*
General Obligation Bonds of 2003, Series DA	$ 4,355,000	09/01/2014	4.200%	12/23/2013	100	419780ZK0	–
	1,475,000	09/01/2015	4.300	12/23/2013	100	419780ZM6	–
	180,000	09/01/2017	4.500	12/23/2013	100	419780ZR5	419791K80
	625,000	09/01/2018	4.600	12/23/2013	100	419780ZT1	419791K98
	8,100,000	09/01/2019	5.250	12/23/2013	100	419780ZV6	419791L30
	20,000	09/01/2020	4.750	12/23/2013	100	419780ZW4	419791L48
	255,000	09/01/2021	4.800	12/23/2013	100	419780 ZY0	419791L63
	130,000	09/01/2022	4.900	12/23/2013	100	419780A27	419791K49
	2,340,000	09/01/2023	4.900	12/23/2013	100	419780A43	419791K64
	11,670,000	09/01/2015	5.250	12/23/2013	100	419780ZN4	–
	7,125,000	09/01/2017	5.250	12/23/2013	100	419780ZS3	419780Z79
	7,070,000	09/01/2018	5.250	12/23/2013	100	419780ZU8	419791L22
	8,520,000	09/01/2020	5.250	12/23/2013	100	419780ZX2	419791L55
	8,750,000	09/01/2021	5.250	12/23/2013	100	419780ZZ7	419791L71
	9,360,000	09/01/2022	5.250	12/23/2013	100	419780A35	419791K56
	7,650,000	09/01/2023	5.250	12/23/2013	100	419780C41	419791K72
General Obligation Bonds of 2003, Series DB	$ 5,000,000	09/01/2014	4.000%	12/23/2013	100	419780B75	–
	24,150,000	09/01/2015	5.250	12/23/2013	100	419780B83	–
	15,145,000	09/01/2014	5.250	12/23/2013	100	419780B67	419791ZT8
	19,655,000	09/01/2016	5.250	12/23/2013	100	419780B91	419791L97
General Obligation Bonds of 2004, Series DD	$ 2,295,000	05/01/2015	4.125%	05/01/2014	100	419780E31	–
	790,000	05/01/2016	4.200	05/01/2014	100	419780E56	–
	7,710,000	05/01/2015	5.250	05/01/2014	100	419780E49	419791M39
	7,725,000	05/01/2016	5.000	05/01/2014	100	419780E64	4197802J9

Refunded Bonds	Principal Amount ($)	Stated Maturity	Interest Rate (%)	Redemption Date	Redemption Price (%)	Original CUSIP*	Balance CUSIP*
General Obligation Bonds of 2004, Series DE	$11,665,000	10/01/2015	5.000%	10/01/2014	100	419780K34	–
	1,020,000	10/01/2015	3.600	10/01/2014	100	419780K26	–
General Obligation Bonds of 2005, Series DF	$ 8,300,000	07/01/2016	5.000	07/01/2015	100	419780P96	419791N79

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