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

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on such bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In the further opinion of Bond Counsel, 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. See "TAX MATTERS" in this Official Statement.

STATE OF HAWAII

$800,000,000
General Obligation Bonds of 2011, Series DZ

$403,455,000
General Obligation Refunding Bonds of 2011, Series EA

$2,800,000
General Obligation Refunding Bonds of 2011, Series EB

$56,225,000
General Obligation Refunding Bonds of 2011, Series EC

$23,750,000
General Obligation Refunding Bonds of 2011, Series ED

(Base CUSIP: 419791)

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

The General Obligation Bonds of 2011, Series DZ, the General Obligation Refunding Bonds of 2011, Series EA, the General Obligation Refunding Bonds of 2011, Series EB, the General Obligation Refunding Bonds of 2011, Series EC, and the General Obligation Refunding Bonds of 2011, Series ED (individually, the "Series DZ Bonds", the "Series EA Bonds", the "Series EB Bonds", the "Series EC Bonds", and the "Series ED Bonds", collectively, the "Bonds"), will be issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Bonds, purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Bonds may be made in the denomination of $5,000 or any integral multiple thereof. See APPENDIX H—"BOOK-ENTRY SYSTEM" herein. The Bonds of each series bear interest payable at the rates set forth on the inside cover hereof on June 1 and December 1 of each year, commencing June 1, 2012.

The Series DZ Bonds and Series EA Bonds are subject to optional redemption prior to their stated maturities as and to the extent described herein. The Series EB Bonds, Series EC Bonds and Series ED Bonds are not subject to redemption prior to their stated maturities.

The Series DZ Bonds are being issued for the purpose of financing, or reimbursing the State of Hawaii for, the Hawaiian Home Lands Settlement, and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks and for other public purposes. The Series EA Bonds, Series EB Bonds, Series EC Bonds and Series ED 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.

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 validity by Hawkins Delafield & Wood 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 December 7, 2011.

BofA Merrill Lynch **Goldman, Sachs & Co.**

Barclays Capital **Citigroup** **J.P. Morgan** **Morgan Stanley**

Dated: November 17, 2011

STATE OF HAWAII

$800,000,000 GENERAL OBLIGATION BONDS OF 2011, SERIES DZ
Dated: Date of Delivery
Due: December 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2016	$33,510,000	5.00%	1.50%	E61
2017	35,230,000	5.00	1.75	E79
2018	37,035,000	5.00	2.00	E87
2019	38,935,000	5.00	2.28	E95
2020	40,935,000	5.00	2.54	F29
2021	43,030,000	5.00	2.71	F37
2022	45,240,000	5.00	2.89	F45
2023	47,560,000	5.00	3.08	F52
2024	49,995,000	5.00	3.24	F60
2025	4,400,000	3.50	3.50	F78
2025	48,125,000	5.00	3.39	G69
2026	55,185,000	5.00	3.51	F86
2027	3,635,000	3.75	3.75	F94
2027	54,360,000	5.00	3.62	G93
2028	60,945,000	5.00	3.72	G28
2029	64,070,000	5.00	3.81	G36
2030	18,455,000	4.00	4.00	G44
2030	48,805,000	5.00	3.88	G77
2031	12,805,000	4.00	4.00	G51
2031	57,745,000	5.00	3.91	G85

$403,455,000 GENERAL OBLIGATION REFUNDING BONDS OF 2011, SERIES EA
Dated: Date of Delivery
Due: December 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2016	$ 2,525,000	2.00%	1.50%	B64
2016	1,900,000	4.00	1.50	C63
2016	38,080,000	5.00	1.50	D62
2017	1,180,000	2.25	1.75	B72
2017	10,100,000	4.00	1.75	C71
2017	33,290,000	5.00	1.75	D70
2018	555,000	2.50	2.00	B80
2018	1,700,000	4.00	2.00	C89
2018	44,515,000	5.00	2.00	D88
2019	2,940,000	3.00	2.28	B98
2019	13,440,000	4.00	2.28	C97
2019	32,675,000	5.00	2.28	D96
2020	2,745,000	3.00	2.54	C22
2020	16,635,000	4.00%	2.54%	D21

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2020	31,980,000	5.00	2.54	E20
2021	950,000	3.00	2.71	C30
2021	20,165,000	4.00	2.71	D39
2021	32,650,000	5.00	2.71	E38
2022	1,875,000	3.25	2.89	C48
2022	13,765,000	4.00	2.89	D47
2022	40,680,000	5.00	2.89	E46
2023	1,000,000	3.00	3.08	C55
2023	58,110,000	5.00	3.08	D54

$2,800,000 GENERAL OBLIGATION REFUNDING BONDS OF 2011, SERIES EB
Dated: Date of Delivery
Due: December 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2012	$2,800,000	2.00%	0.25%	E53

$56,225,000 GENERAL OBLIGATION REFUNDING BONDS OF 2011, SERIES EC
Dated: Date of Delivery
Due: December 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2013	$ 975,000	2.00%	0.62%	H27
2013	15,000,000	3.00	0.62	H35
2013	40,250,000	5.00	0.62	H43

$23,750,000 GENERAL OBLIGATION REFUNDING BONDS OF 2011, SERIES ED
Dated: Date of Delivery
Due: December 1, as shown below

Due	Principal Amount	Interest Rate	Yield	CUSIP Number (419791)*
2015	$ 2,350,000	2.00%	1.23%	H50
2015	1,615,000	3.00	1.23	H68
2015	19,785,000	5.00	1.23	H76

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

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

Neil Abercrombie
Governor

Brian Schatz
Lieutenant Governor

Kalbert K. Young
Director of Finance

David M. Louie
Attorney General

Jan S. Gouveia
Acting Comptroller

BOND COUNSEL TO STATE

Hawkins Delafield & Wood 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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OFFICIAL STATEMENT

State of Hawaii

$800,000,000 **General Obligation Bonds** **of 2011, Series DZ**		**$403,455,000** **General Obligation Refunding** **Bonds of 2011, Series EA**
$2,800,000 **General Obligation Refunding Bonds** **of 2011, Series EB**	**$56,225,000** **General Obligation Refunding Bonds** **of 2011, Series EC**	**$23,750,000** **General Obligation Refunding Bonds** **of 2011, Series ED**

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 $800,000,000 aggregate principal amount of General Obligation Bonds of 2011, Series DZ (the "Series DZ Bonds"), its $403,455,000 aggregate principal amount of General Obligation Refunding Bonds of 2011, Series EA (the "Series EA Bonds"), its $2,800,000 aggregate principal amount of General Obligation Refunding Bonds of 2011, Series EB (the "Series EB Bonds"), its $56,225,000 aggregate principal amount of General Obligation Refunding Bonds of 2011, Series EC (the "Series EC Bonds"), and its $23,750,000 aggregate principal amount of General Obligation Refunding Bonds of 2011, Series ED (the "Series ED Bonds" and, together with the Series DZ Bonds, Series EA Bonds, Series EB Bonds, and Series EC Bonds, the "Bonds"), in connection with the sale of the Bonds by the State of Hawaii.

AUTHORITY AND PURPOSE

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

The proceeds from the sale of the Bonds will be used (i) in the case of the Series DZ Bonds, to finance, or to reimburse the State for, certain expenditures for public purposes for which appropriations have been made in certain Acts of the State Legislature and which the Legislature may from time to time approve, including the Hawaiian Home Lands Settlement effected by Act 14, Session Laws of Hawaii ("SLH") 1995 (Special Session), and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks and for certain other public purposes, including payment of up to $30 million during fiscal year 2012 in connection with the Hawaiian Home Lands Settlement, as authorized by Act 164, SLH 2011, (ii) in the case of the Series EA Bonds, Series EB Bonds, Series EC Bonds and Series ED 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 the 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—REFUNDED BONDS". 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—REFUNDED BONDS".

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—REFUNDED BONDS".

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—REFUNDED BONDS", 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 December 1 of the years, and will bear interest at the rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the inside cover page hereof, payable on June 1 and December 1 of each year, commencing June 1, 2012 (each an "interest payment date"). The Bonds will be dated their date of delivery, and will be issued in fully registered form without coupons, in the denomination of $5,000 or any integral multiple of $5,000.

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

Optional Redemption of the Bonds

The Series DZ Bonds and Series EA Bonds maturing on or after December 1, 2022, will be subject to redemption prior to their stated maturities at the option of the State at any time on and after December 1, 2021, 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 EB Bonds, Series EC Bonds and Series ED Bonds will not be subject to redemption prior to their stated maturities.

General Redemption Provisions

If any Bond is of a denomination in excess of $5,000, portions of the principal sum thereof in installments of $5,000 or any integral multiple thereof may be redeemed.

If any Bond (or any portion of the principal sum thereof) shall be redeemable and shall have been duly called for redemption and notice of such redemption shall have been duly given as provided in the Bond Issuance Certificate, and if on or before the date fixed for such redemption the State shall have duly made or provided for the payment of the principal sum thereof to be redeemed, the premium, if any, payable upon such redemption and the interest accrued on the principal sum to be redeemed to the date fixed for such redemption, and unless such notice is conditioned upon satisfaction of any other condition or the occurrence of any other event and such condition is not satisfied or such event has not occurred, then such Bond (or the portion of the principal sum thereof to be redeemed) shall become due and payable upon such date fixed for redemption and interest shall cease to accrue and become payable from and after the date fixed for such redemption on the principal sum thereof to be redeemed.

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

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

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

SECURITY FOR THE BONDS

Security Provisions

Under the Constitution and the laws of the State, the payment of principal of and interest on general obligation bonds of the State, including the Bonds, shall be a first charge on the General Fund of the State. Under said laws, the full faith and credit of the State are pledged to the punctual payment of the principal of and interest on general obligation bonds of the State, including the Bonds, and sufficient revenues shall be raised and provided from time to time for the purpose of payment. Amounts on deposit in the General Fund are applied to the payment of the debt service on the issued and outstanding general obligation bonds of the State, including the Bonds, as the debt service becomes due and payable.

Market Risk

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

Sovereign Immunity

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state of the Union (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself, and under current law the State has waived its immunity to be sued in limited circumstances, including for claims against the State founded upon any State statute or upon any contract with the State (except a contract or any act of any State officer which the officer is not authorized to make or do by State law). However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition against suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that, in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against State officials to enforce such payment. The State has never defaulted in the payment of either principal of or interest on any indebtedness of the State.

THE STATE OF HAWAII

Certain general information concerning the State of Hawaii is contained in Appendix A to this Official Statement. Selected financial information concerning the State of Hawaii, including information about the State's outstanding indebtedness and its revenue projections, is contained in Part I of Appendix B to this Official Statement. Part II of Appendix B contains the General Purpose Financial Statements and related General Fund schedules excerpted from the Comprehensive Annual Financial Report of the State of Hawaii for the State's fiscal year ended June 30, 2010. 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 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, the adequacy of State payments to OHA from the income and sales of Ceded Lands and 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– "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–"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–"Employees' Retirement System." A description of the ERS and Act 100 is provided under "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–"Hawaii Employer-Union Health Benefits Trust Fund."

TAX MATTERS

Opinions of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State and others in connection with the Bonds, and Bond Counsel has assumed compliance by the State with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, the Bonds and the income therefrom are exempt from all taxation in the State of Hawaii or any county or any other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The State has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Tax-Exempt Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Tax-Exempt Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Tax-Exempt Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Tax-Exempt Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Tax-Exempt Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the Tax-Exempt Bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the Tax-Exempt Bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of Tax-Exempt Bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of Tax-Exempt Bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Tax-Exempt Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Proposed Legislation and Other Matters

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds. For example, on September 12, 2011, President Obama sent to Congress draft legislation entitled the "American Jobs Act of 2011" (the "Proposed Act"). On September 13, 2011, Senate Majority Leader Reid introduced the Proposed Act in the Senate (S.1549). The Proposed Act included a provision that, if enacted as proposed, would have limited the amount of exclusions (including tax-exempt interest, such as interest on the Bonds) and deductions certain high income taxpayers could use to reduce their income tax liability for taxable years after 2012. On October 11, 2011, a procedural vote in the Senate to end the debate and thus allow a vote on the Proposed Act, as amended, did not pass. This or other legislative proposals may be considered or introduced that could affect the market price or marketability of tax-exempt bonds, such as the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Bond Counsel to the State. The form of the opinion Bond Counsel proposes to render is set forth in Appendix G. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, 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, Goldman, Sachs & Co., Barclays Capital Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC (collectively, the "Underwriters") have agreed to purchase the Bonds at an aggregate purchase price equal to the principal amount of the Bonds, plus an original issue premium of $183,094,920.50 and less an aggregate underwriting discount of $3,633,634.86, which includes $691,640.00 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.

Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, and Barclays Capital Inc. established a strategic alliance in May of 2009, which enables Pershing LLC to participate as a selling group member and a retail distributor for all new issue municipal bond offerings underwritten by Barclays Capital Inc., including the Bonds offered hereby. Pershing LLC will receive a selling concession from Barclays Capital Inc. in connection with its distribution activities relating to the Bonds.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, each an Underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Bonds.

J.P. Morgan Securities LLC 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.

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.

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.

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

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 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 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, 2010, 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.

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 the Far East as 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, 2011 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, 2011, 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, 2009, 2010 and 2011 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 December 1, 2011 and on the Bonds, after exclusions therefrom permitted by the Constitution, is $667,040.922 in the fiscal year ending June 30, 2014. 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 August 31, 2011, the amount of authorized but unissued general obligation bonds (including the Series DZ Bonds) is $2,447,627,844. 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, 2015.

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".

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 taxes described below account for substantially all of the tax revenues of the State and are subject in all cases to subsequent legislation. The Department of Taxation, headed by the Director of Taxation, is charged with the responsibility of administering and enforcing the tax revenue laws and the collection of all taxes and other payments payable thereunder. All tax revenues of the State are credited to one or the other of the two operating funds maintained by the State, designated respectively as the General Fund and 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 shall be exercised exclusively by the counties. The State cannot predict the impact, if any, of proposed changes in the federal individual and corporate income tax laws on the tax revenues of the State.

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 will present its report to the 2012 legislative session.

General Fund

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

The Constitution provides that whenever the General Fund balance at the close of each of two successive fiscal years exceeds 5% of General Fund revenues for each of the two fiscal years, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. The Constitution does not specify the amount of, or a formula for calculating, any such tax refund or tax credit. Because the fiscal year 2006 and 2007 fund balances exceeded 5% of General Fund revenues for those years, the two successive fiscal year criterion was met and the 2008 Legislature 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 balance for fiscal year 2009 did not exceed 5% of General Fund revenues, the 2010 and 2011 legislatures were not required to provide for a tax refund or tax credit. Furthermore, because the fund balances for fiscal years 2010 and 2011 did not exceed 5% of General Fund revenues, the 2012 and the 2013 legislatures will not be required to provide for a tax refund or tax credit. In November 2010, Section 6 of Article VII, State Constitution, was amended to authorize the Legislature to provide for a tax refund or tax credit to taxpayers of the State or make a deposit into one or more funds that serve as temporary supplemental sources of funding in times of an emergency, economic downturn in unforeseen reduction in revenues, as provided by law. The legislature has not required any deposit to other funds as yet.

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

Taxes and Other Amounts Deposited in General Fund

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

Individual and corporate income taxes, general excise and use taxes, public service company taxes, estate and certain transfer taxes, a franchise tax on financial corporations, liquor and tobacco taxes, and certain insurance premium taxes, which for fiscal year 2011 represented approximately 87% of all tax revenues of the State, are deposited to the General Fund. 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 taxable income. 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%. The general excise (gross income) tax is a business privilege tax measured by the application of rates against values of products, gross proceeds of sales or gross income. The use tax is an excise tax levied on tangible personal property, contracting, or services imported or purchased from an unlicensed seller for resale or use in the State. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable. Effective January 1, 2007, the City and County of Honolulu surcharge of ½ of 1% through 2022 is imposed upon Oahu activities subject to the 4% General Excise and Use Taxes. The State retains, as General Fund realizations, 10% of the county surcharge collected to reimburse the costs of assessment, collections and disposition incurred by the State. The Public Service Company tax is a tax measured by the gross income from public utility business of public utilities. The estate and transfer tax is a tax on the transfer of a taxable estate and a generation skipping transfer equal to the federal credit for state death taxes allowed by Section 2011 of the Code as it existed on December 31, 2000 and a federal credit for state taxes allowed by Section 2604 of the Code as it existed on December 31, 2000. The franchise tax is a tax measured by the taxable income of banks and other financial corporations. There is an excise tax on those who sell or use tobacco products and a gallonage tax imposed on dealers who sell or use liquor.

Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, grants, charges for administrative services and other sources. From FYs 2004 to 2008 and in FY 2010, 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.

In addition, transient accommodations, conveyance and fuel taxes are allocated among various funds and to the counties. The transient accommodations tax (TAT) of 7.25% is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time share vacation units. For the period beginning July 1, 2009, and ending June 30, 2010, 1.0% was assessed in addition to the existing 7.25% transient accommodations tax (total of 8.25%). For the period beginning July 1, 2010, and ending June 30, 2015, 2.0% will be assessed in addition to the existing 7.25% transient accommodations tax (total of 9.25%). The additional amounts are to be deposited to the General Fund, except that 12.5% of the additional amount for FY 2011 is to be deposited to the Tourism Special Fund. Act 103, SLH 2011, established a $10 daily tax on each transient accommodation furnished at no charge. The Act 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.

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, and unemployment insurance taxes are deposited to Special Funds. In addition, portions of the rental motor vehicle and tour vehicle surcharge taxes, tobacco taxes, transient accommodations taxes, environmental response taxes, and conveyance taxes are deposited into Special Funds (and portions of these taxes are deposited into the General Fund). In fiscal year 2011, those taxes were approximately 13% of the total tax revenues of the State. Distributors are required to pay taxes on aviation fuel, diesel oil, alternative fuels for operation of an internal combustion engine and on liquid fuels other than the foregoing, e.g., on gasoline used to operate motor vehicles upon the public highways. 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 to $7.50 per day and deposits $4.50 to the general fund, effective from July 1, 2011 to June 30, 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 taxes are currently set at $1.05 per barrel of petroleum product for the period from July 1, 2010 to June 30, 2015. The conveyance taxes are 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.

Federal Grants

State departments, agencies, and institutions annually receive federal grants. These amounts account for about 15% of the total State budget for each year, but are not a source of payment for the Bonds. With the expected receipt of federal stimulus funds in fiscal years 2010 to 2013, the portion of the State budget made up by federal funds increases to 23% in fiscal year 2010, 19% in fiscal year 2011, 18.6% in fiscal year 2012, and 18.4% in fiscal year 2013. Approximately 54% 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 23% of such federal funds are used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 9% of all federal funds, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, account for about 7% of such federal receipts. Other programs account for the balance of such receipts. 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*

*Includes $367.7 million is fiscal year 2010 and $506.7 million in fiscal year 2011 from federal stimulus funds.

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

As of June 30, 2011, the State of Hawaii has been awarded a cumulative amount of $1,877,903,555 in federal stimulus aid through formula and competitive grants. As of June 30, 2011, Hawaii has been awarded a cumulative amount of $560,364,097 in Federal Medical Assistance Percentage funds, a cumulative amount of $192,178,168 in State Fiscal Stabilization Funds and a cumulative amount of $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 shall submit to the Legislature the Governor's proposed State budget of the executive branch for the ensuing fiscal biennium. The budgets of the judicial branch, the legislative branch, and the Office of Hawaiian Affairs are submitted by their respective leaders to the Legislature for its consideration. In such regular session, no appropriation bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the bill authorizing the operating expenditures for the executive branch for the ensuing fiscal biennium, to be known as the general appropriations bill, shall have been transmitted to the Governor.

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

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

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

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

Emergency and Budget Reserve Fund; Tobacco Settlement

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 ("EBR") Fund, a special fund for emergency and "rainy day" purposes. Deposits to the EBR Fund include appropriations made by the legislature and a portion of the tobacco settlement moneys. All interest earned from moneys in the EBR Fund is credited to the General Fund. Appropriations from the EBR Fund require a two thirds majority vote of each house of the Legislature. The EBR Fund balance was $54.0 million as of June 30, 2004, $54.1 million as of June 30, 2005, $53.5 million as of June 30, 2006, $61.5 million as of June 30, 2007, $74.0 million as of June 30, 2008, $60.4 million as of June 30, 2009, $62.5 million as of June 30, 2010, and $9.7 million as of June 30, 2011. The State is drawing on the EBR Fund balance pursuant to existing appropriations. Projected fund balances, after such appropriations, are $5.5 million for fiscal years 2012 and 2013, and $13.0 million for fiscal year 2014 and $21.0 million for fiscal year 2015. The Governor plans to submit a legislative proposal to the 2012 Hawaii Legislature to appropriate $20 million in fiscal year 2012 and $43.7 million in fiscal year 2013 to replenish the EBR Fund.

The annual proceeds from the tobacco settlement were $37.8 million for fiscal year 2004, $38.4 million for fiscal year 2005, $35.2 million for fiscal year 2006, $36.9 million for fiscal year 2007, $56.1 million for fiscal year 2008, $60.4 million for fiscal year 2009, $50.9 million for fiscal year 2010, and $47.7 million for fiscal year 2011. PricewaterhouseCoopers LLP, independent auditor for the Tobacco Master Settlement Agreement, has estimated that the State will receive annual proceeds from the tobacco settlement ranging from $48 to $63 million a year for fiscal years 2012 to 2027. Under the Tobacco Master Settlement Agreement, the State's proceeds are estimated to total $1.4 billion through 2027. 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 2011, the balance was distributed as follows: 15% to the EBR Fund, 25% to the Department of Health, 6.5% to the Hawaii tobacco prevention and control trust fund, 28% to the University of Hawaii, and 25.5% to the State general fund. In fiscal years 2012 and 2013, Act 124, SLH 2011, diverts the EBR Fund's 15% and the Hawaii tobacco prevention and control trust fund's 6.5% to the State General Fund. Distributions to the Department of Health and the University of Hawaii remain unchanged.

Expenditure Control

Expenditure Ceiling. The Constitution provides that, notwithstanding any other provision to the contrary, the Legislature shall establish a General Fund expenditure ceiling which shall limit the rate of growth of General Fund appropriations, excluding federal funds received by the General Fund, to the estimated rate of growth of the State's economy as provided by law and that no appropriations in excess of such ceiling shall be authorized during any legislative session unless the Legislature shall, by a two-thirds vote of the members to which each house of the Legislature is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor. Pursuant to such Constitutional provision, Part V of Chapter 37, HRS, provides, in general, that appropriations from the General Fund for each year of the biennium or each supplementary budget fiscal year shall not exceed the expenditure ceiling for that fiscal year. The expenditure ceiling is determined by adjusting the immediate prior fiscal year expenditure ceiling by the applicable "state growth." State growth means the estimated growth of the State's economy and is established by averaging the annual percentage change in total State personal income for the three calendar years immediately preceding the fiscal year for which appropriations from the General Fund are to be made. The Governor is required to submit to the Legislature a plan of proposed aggregate appropriations for the State which includes the executive budget, proposed grants to private entities, any specific appropriation measures to be proposed by the executive branch and estimates of the aggregate proposed appropriations of the judicial and legislative branches of government. In any year in which this plan of proposed General Fund appropriations exceeds the estimated expenditure ceiling, the Governor must declare the dollar amount, the rate by which the expenditure ceiling would be exceeded and the reasons for proposing appropriations in excess of the ceiling amount. Appropriations for recent fiscal years, except fiscal year 2007, have not exceeded the expenditure ceiling. Current and projected appropriations for 2012 are not expected to exceed the expenditure ceiling.

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

Operating Expenditures. Maximum limits for operating expenditures are established for each fiscal year by legislative appropriations. Pursuant to Part II, Chapter 37, HRS, moneys can be withheld by the Governor or the Director of Finance to ensure the solvency of each fund. Expenditure plans consisting of quarterly requirements of all State programs are prepared at the beginning of each fiscal year by the respective departments of State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by 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 is capitalized by annual appropriations of at least $45 million in general obligation bonds or by annual transfers of at least $45 million from the General Excise Tax if no general obligation bond appropriations are authorized. Act 304, SLH 2006, temporarily increased the minimum amount of appropriations from $45 million to $90 million for fiscal years 2007 and 2008 to provide additional funds to address a backlog of repair and maintenance projects.

Act 213, SLH 2007 as amended by Act 158, SLH 2008, provided for expenditures of $292.0 million for fiscal year 2008 and $540.6 million for fiscal year 2009 from the SEFISF.

Act 162, SLH 2009, as amended by Act 180, SLH 2010, provides for expenditures of $237.3 million for fiscal year 2010 and $127.1 million for fiscal year 2011 from the SEFISF.

Act 164, SLH 2011, provides for expenditures of $539.8 million for fiscal year 2012 and $171.0 million for fiscal year 2013 from the SEFISF.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

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

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

The status of negotiations for wages and health benefits the period from July 1, 2011 – June 30, 2013 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 provides 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 25, 2011 for Unit 2 (blue collar supervisors), Unit 3 (white collar workers), Unit 4 (white collar supervisors), Unit 6 (educational officers), Unit 8 (University of Hawaii administrative, professional technical staff), and Unit 13 (professional and scientific employees). The agreements provide for a 5% wage reduction beginning July 2011 through June 2013. These agreements contain a "most favored nation" provision that entitles the respective units to receive equivalent consideration should one of the units still in negotiation receive more favorable provisions in its agreement.

Effective July 1, 2011, the Department of Education implemented its June 9, 2011 Last, Best, and Final Offer to bargaining Unit 5 (Teachers). Provisions include a 1.5% salary reduction and 9 days of directed leave without pay for 12-month employees and 7 ½ days for 10-month employees for each fiscal year for the period July 1, 2011 through June 30, 2013.

A tentative agreement was reached with Unit 1 (blue collar workers) on November 9, 2011. The agreement provides for fourteen days of directed leave without pay for Fiscal Year 2011 - 2012 and thirteen days of directed leave without pay for Fiscal Year 2012 - 2013. The tentative agreement is currently in the process of being ratified.

The tentative agreement with Unit 1 may impact existing agreements with UHPA and Units 2, 3, 4, 6, 8 and 13 because of the "most favored nation" provision contained in those agreements. Negotiations will be undertaken at a later date to address equivalent consideration issues as may be necessary.

All unsettled bargaining units are at statutory impasse, though negotiations have continued.

Unit 9 (Nurses) members rejected a tentative agreement on April 25, 2011. Unit 9 is subject to mandatory binding arbitration. An arbitration hearing date has not been set.

Unit 10 (institutional health and correctional workers) and Unit 11 (firefighters) are subject to mandatory binding arbitration. Arbitration hearing dates have not yet been set.

In addition, the following matters are presently pending:

The Hawaii State Teachers Association has filed a prohibited practice complaint with the Hawaii Labor Relations Board regarding the Department of Education's implementation of the employer's Last, Best, and Final Offer and is seeking interlocutory relief from wage reductions and decreases to employer contributions for Employer-Union Health Benefits contributions. Hearings continue regarding the matter.

State Employees' Health Benefits

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 voluntary medical insurance coverage under Medicare, public employer contributions to fund the health and other benefit plans of retirees are not to exceed certain monthly contribution levels specified in 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 is to give State and county employees who were members of applicable bargaining units and who retired before establishment of the VEBA trust ("existing retirees") a one time option to transfer from the Trust Fund to the VEBA trust. The State and county employers' monthly contributions to each VEBA trust for active employees and future retirees 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. Based on this ruling, the active employees and retirees in the HSTA-VEBA trust were transitioned to the Trust Fund, effective January 1, 2011. The State intends to appeal that part of the circuit court's ruling that requires the Trust Fund to provide former participants in the HSTA-VEBA trust with the same standard of coverage benefits that they had in their HSTA-VEBA trust health benefits plans.

Other Post Employment Benefits

The Government Accounting Standards Board ("GASB") has issued Statements No. 43 ("GASB 43"), Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans ("OPEBs"), and No. 45 ("GASB 45"), Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. GASB 43 was implemented by the Trust Fund for fiscal year ending June 30, 2007 and GASB 45 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 ("Trust Fund") July 1, 2009 Actuarial Valuation Study (the "Trust Fund Report") of the Trust Fund's Other Postemployment Benefits ("OPEB") and the State of Hawaii Voluntary Employee's Beneficiary Association ("HSTA-VEBA") Trust for the Hawaii State Teachers Association July 1, 2009 Actuarial Valuation Study (the "VEBA Report," and, together with the Trust Fund Report, the "Reports") of the HSTA-VEBA's OPEBs. The Reports were prepared by the State's professional actuarial advisors, Aon Consulting Inc. The Reports quantify the Actuarial Accrued Liabilities ("AAL") of the respective employers under GASB 45 and develop Annual Required Contributions ("ARC") as the basis for determining the amounts that the respective employers will report under GASB 45, effective for the fiscal year ending June 30, 2010.

The Reports provide, based on stated actuarial assumptions, costs with no prefunding of the ARC. The Trust Fund Report states that the State's AAL as of July 1, 2009 is $11,523.3 million, and the corresponding ARC for the fiscal year ending June 30, 2011 would be $842.3 million. The estimated Trust Fund pay as you go funding amount for such fiscal year is $188.3 million. The VEBA Report states that the HSTA-VEBA AAL as of July 1, 2009 is $2,484.2 million and the corresponding ARC for the fiscal year ending June 30, 2011 would be $211.9 million. The HSTA-VEBA pay as you go funding amount for such fiscal year is $18.3 million. The State has commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Reports. The State expects to continue to fund its OPEB costs on a pay as you go basis for the near term.

The Reports will be updated every two years. Reports as of July 1, 2011 are expected to be available on or about April or May of 2012.

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 85th Annual Actuarial Valuation for the Year Ended June 30, 2010 (the "2010 Valuation Report"), which is the most recent valuation report of the System. The information presented in the 2010 Valuation Report was based on actuarial assumptions adopted by the System's Board of Trustees in August 2006. As described more fully under "—General Information" below, subsequent to the issuance of the 2010 Valuation Report, new actuarial assumptions (including, among other changes, a decrease in the investment yield rate assumption) and a revised benefit structure for new members were adopted by the Board of Trustees and/or enacted through statute to better reflect the recent actual experience of the System. As a result, the actuarial information in the 2010 Valuation Report and, in turn, set forth herein do not reflect such new assumptions and revised benefit structure. While certain benefit changes may reduce the future liabilities of the System, other new assumptions (in particular, the decrease in the investment yield rate assumption) may have an adverse impact on the actuarial funded ratio and unfunded actuarial accrued liability of the System and may lead to the Legislature further increasing the statutorily established employers' annual required contributions ("ARC"). The new assumptions, funding changes and benefit structure will be reflected in the valuation report to be prepared by the System's actuary for the year ended June 30, 2011 (the "2011 Valuation Report"), which valuation report is expected to be issued in the first quarter of calendar year 2012.

On July 8, 2011, the Governmental Accounting Standards Board ("GASB") released its exposure draft of proposed changes in pension accounting and financial reporting standards for state and local governments (GASB 25 and 27), which, if implemented, would impact the accounting treatment of pension plans in which state and local governments participate. Major changes may include: (1) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities are now reported in the notes to the government's financial statements); (2) lower actuarial discount rates would be required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (3) shorter amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements. Following public comments on the exposure draft in 2011, new standards could be adopted in final form in 2012 and are expected to take effect in fiscal years beginning mid-2013 for most employers.

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, 26.3% are reimbursed from various special 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%. While certain changes to the benefits and funding may reduce future liabilities and the UAAL of the System, other new assumptions (in particular, the decrease in the investment yield rate assumption) may have an adverse impact on the actuarial funded ratio and unfunded actuarial accrued liability of the System and may lead to the Legislature further increasing the statutorily established employers' annual required contributions. The new assumptions, funding changes and benefit structure will be reflected in the 2011 Valuation Report, which is expected to be issued in the first quarter of calendar year 2012.

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, 2010, the contributory plan covered 7,035 active employees or 10.7% of all active members of the System, the noncontributory plan covered approximately 21,268 active employees or 32.3%, and the Hybrid Plan covered 37,587 active members or 57.0%. 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, 2011, the System's membership comprised approximately 65,310 active employees, 6,649 inactive vested members and 39,689 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, 2010 and 2011:

Category	June 30, 2010	June 30, 2011
Active	65,890	65,310
Inactive	6,895	6,649
Retirees and beneficiaries	38,441	39,689
Total	**111,226**	**111,648**

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, 2010, the System's underfunded status has increased significantly because of continued recognition of market investment losses. 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, 2010 was $7.138 billion. The statutory employee and employer contribution rates are intended to provide for the normal cost plus the level percentage of payroll required to amortize the UAAL over a period not in excess of 30 years. Based on the current contribution rates of 19.70% for police and fire employees and 15.00% for all other employees, the actuary has determined that the remaining amortization period is 41.3 years. Because this period is greater than 30 years (the maximum period specified by HRS Section 88-122(e)(1) and GASB 25), the financing objectives of the System are currently not 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 to take effect to bring the funding period down to 30 years.

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 described above, the System's actuary determined that the remaining period required to amortize the UAAL as of June 30, 2010 was 41.3 years, which is greater than the maximum of 30 years specified by HRS Section 88-122(e)(1) and GASB 25. 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 increase 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, 2010.

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 on a level percentage of payroll basis, taking into account the payroll growth assumption and the normal cost expressed as a percent of pay.

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 as of June 30, 2010 was 12.60% of payroll, which was 9.59% of payroll less than the total contributions required by law (15.49% from employers plus 6.70% in the aggregate from employees). Since only 5.90% of the employers' 15.49% contribution is required to meet the normal cost (6.70% comes from the employee contribution), it is intended that the remaining 9.59% 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.

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 will be reflected in the 2011 Valuation Report, which is expected to be issued in the first quarter of calendar year 2012.

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)
2001	$ 9,516.0	$ 10,506.9	$ 991.0	90.6%	$ 2,444.2	40.5%
2002	9,415.2	11,210.2	1,795.1	84.0%	2,671.7	67.2%
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%

Source: The 2010 Valuation Report.

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

The total assets of the System on a market value basis amounted to approximately $8.8 billion as of June 30, 2009, $9.8 billion as of June 30, 2010 and $11.6 billion as of June 30, 2011. Actuarial certification of assets as of June 30, 2009 was $11.4 billion (See "STATE EMPLOYEES' RETIREMENT SYSTEM" in Part I of Appendix B hereto). The June 30, 2010 actuarial certification of assets was $11.3 billion, and its unfunded actuarial accrued liability was $7.1 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 year 2009 and 2010:

NORMAL COST

	June 30,					
	2009			2010		
	Police and Firefighters	Other Employees	All Employees	Police and Firefighters	Other Employees	All Employees
Normal cost as % of payroll	18.79%	11.83%	12.55%	18.80%	11.84%	12.60%
Employee contribution rate	12.20%	6.05%	6.67%	12.20%	6.05%	6.70%
Effective employer normal cost rate	6.59%	5.78%	5.88%	6.60%	5.79%	5.90%

Source: The 2010 Valuation Report.

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

	June 30, 2009	June 30, 2010
AVA	$11,400.1 million	$11,345.6 million
Market Value of Assets	$8,818.0 million	$9,821.6 million
Market Value as Percentage of AVA	77.4%	86.6%
Funded Ratio (AVA)	64.6%	61.4%
Funded Ratio (Market Value)	50.0%	53.1%

Source: The 2010 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
2001	$ 164,397	$ 8,132	4.9%
2002	167,459	167,459	100.0%
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%

Source: The 2010 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, 2011:

ASSET ALLOCATION

(as of June 30, 2011)

	Actual Allocation		Target Allocation		Allocation
Asset Type	Amount ($mm)	Percentage	Amount ($mm)	Percentage	Difference
Domestic Equity	$ 5,530.0	47.8%	$ 4,050.0	35.0%	12.8%
Non-US Equity	1,990.0	17.2%	2,430.0	21.0%	-3.8%
Fixed Income	2,710.0	23.4%	2,780.0	24.0%	-0.6%
Real Estate	810.0	7.0%	810.0	7.0%	0.0%
Private Equity	380.0	3.3%	580.0	5.0%	-1.7%
Real Return	150.0	1.3%	580.0	5.0%	-3.7%
Other	0.0	0.0%	350.0	3.0%	-3.0%
Total	**$11,600.0**	**100.0%**	**$11,600.0**	**100.0%**	

Source: Valuations provided by Northern Trust – 2011; 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 2011 Quarterly Statistical and Economic Report ("QSER") or from other materials prepared by DBEDT, some of which may be found at http://www.hawaii.gov/dbedt/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are 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 2011 is 2.9 percent. In real terms (adjusting for inflation), DBEDT estimates that the 2011 State's GDP growth to be 1.3 percent over that of 2010.

State of the Economy

Most of the economic indicators were positive in the third quarter of 2011. Visitor expenditures, civilian wage and salary jobs, and State general fund tax revenues all increased; however, value of private building permits decreased in the quarter as compared to the same quarter last year.

The State general fund tax revenues increased in the third quarter of 2011 compared to the same quarter of 2010. All major components of the State general fund tax revenues increased in the quarter compared to the third quarter of 2010. In the first three quarters of 2011, State general fund tax revenues were up $311.5 million or 9.7 percent over the same period of 2010. As an indicator of current economic activity, state general excise tax revenue increased 7.1 percent in the third quarter of 2011 compared to the same quarter in 2010.

The labor market conditions show that the economy continues to improve. Hawaii's unemployment rate remains among the lowest in the nation. During the first nine months of 2011, the not-seasonally adjusted unemployment rate averaged 6.3% in Hawaii, while the unemployment rate was 9.2% in the U.S. during the same time period. After ten consecutive quarterly decreases in jobs from the third quarter of 2008 to the third quarter of 2010, Hawaii's jobs increased for the fourth time. In the third quarter of 2011 Hawaii's civilian wage and salary jobs averaged 595,350 jobs, an increase of 8,600 jobs or 1.5 percent from the same quarter of 2010.

Job increase in the third quarter of 2011 was completely due to job increases in the private sector. In this quarter, the private sector added about 9,450 jobs compared to the third quarter of 2010. During the third quarter of 2011, the three levels of government together lost 1,050 jobs compared to the same quarter of 2010. The Federal government, the State government, and the Local government lost 250, 550, and 250 jobs, respectively, in the quarter.

The most recent data from the U.S. Bureau of Economic Analysis (BEA) shows that Hawaii's total nominal personal income in the second quarter of 2011 increased $2,730 million or 4.8 percent from the same quarter of 2010. This increase includes inflation so that the growth of real personal income was smaller. The increase in nominal personal income during the second quarter of 2011 was due to increases in all major components of personal income. In dollar terms, the largest increase occurred in wage and salary disbursements, followed by dividends, interest, and rent, personal current transfer receipts, supplements to wage and salaries, which include retirement and unemployment insurance benefits, and proprietors' income. In the first half of 2011, total annualized personal income increased 4.8 percent from the same period of 2010.

According to the most recent data available, consumer prices in Honolulu increased 3.5 percent in the first half of 2011 compared with the same period of 2010, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 2.8 percent in the first half of 2011. In 2010, the Honolulu CPI-U increased 2.1 percent from the previous year.

The higher Honolulu CPI-U in the first half of 2011 was primarily due to relatively large increases in the price index of Other Goods and Services (7.0 percent); followed by the index for Transportation (6.8 percent), Recreation (3.7 percent), and Education and Communication (3.6 percent). The prices for Housing and Food & Beverages increased 2.9 percent and 2.6 percent, respectively, while the price for Medical Care increased only 0.2 percent compared to the first half of 2010.

Visitor spending in Hawaii continued to grow in the third quarter of 2011 despite the decline in arrivals. Visitor spending increased 8.3 percent in the third quarter of 2011 compared to the same quarter of 2010. In the first three quarters of 2011, total visitor spending increased 14.7 percent compared to the same period last year. The increase in visitor spending was mainly due to the increase in daily spending. Daily visitor spending during the first 9 months of 2011 averaged $179.8 per person, 10.1 percent higher than the $163.4 daily spending during the same time period a year ago.

In construction, both the value of private building permits and government contracts awarded decreased. In the third quarter of 2011 the permit value for private construction decreased $14.7 million or 2.7 percent and government contracts awarded decreased $228.1 million or 64.7 percent from the same quarter of 2010. However, construction jobs increased by 1.4 percent in the third quarter of 2011 compared with the same quarter of 2010. According to the most recent data available, current construction put-in-place based on excise tax data increased $141.7 million or 10.9 percent in the second quarter of 2011 compared to the same quarter of 2010.

Outlook for the Economy

Based on the most recent development in the national and global economy, the performance of Hawaii's tourism industry and the labor market conditions in the state, Hawaii's economy is expected to continue positive growth for the rest of 2011 and into 2012. However, the DBEDT forecast is less optimistic compared with the previous forecast.

Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. According to the August 2011 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 1.8 percent in 2011 as a whole, lower than the 2.7 percent growth projected in the May 2011 forecast. For 2012 the consensus forecast expects an overall 2.5 percent growth in U.S. real GDP, lower than the 3.2 percent growth projected in the May 2011 forecast.

Due to the March 2011 Tohoku earthquake and tsunami, forecasts for Japan were also revised downward for 2011 in the August 2011 Blue Chip Economic Consensus Forecasts. Real GDP growth for Japan is now expected to decrease 0.6 percent in 2011, lower than the 0.4 percent increase projected in the May 2011 forecast. However, for 2012, the consensus forecast now expects an overall 3.1 percent growth in Japanese real GDP, higher than the 2.7 percent growth projected in the May 2011 forecast.

For the local economy, DBEDT expects that most of the economic indicators will grow at slower rates than previously forecasted.

Overall, Hawaii's economy measured by real GDP is projected to show a 1.3 percent increase in 2011, down 0.3 of a percentage point from the 1.6 percent growth forecast last quarter. That growth is currently expected to increase to 1.8 percent in 2012.

The projection for wage and salary jobs in 2011 changed from a 1.8 percent growth in the previous forecast to a 1.5 percent growth in the current forecast. In 2012, jobs are now projected to increase 1.8 percent compared to 2.0 percent growth in the previous forecast.

The Honolulu Consumer Price Index (CPI), which increased 3.5 percent in the first half of 2011, is expected to increase 3.0 percent in 2011, 0.5 of a percentage point higher than the previous forecast. In 2012, the CPI is projected to increase 2.5 percent.

Personal income in current dollars is expected to grow 3.8 percent in 2011, 0.2 of a percentage point higher than the growth in the previous forecast. However, due to higher projected inflation, the real personal income is currently projected to grow 0.8 percent in 2011, 0.2 of a percentage point below previous forecast. In 2012, current-dollar personal income and real personal income are expected to increase 3.9 percent and 1.4 percent, respectively.

Visitor arrivals are expected to increase 3.0 percent in 2011, 0.8 of a percentage point lower than the previous forecast of 3.8 percent. The forecast for visitor days in 2011 is now expected to increase 4.4 percent, 0.7 of a percentage point lower than the previous forecast. The forecast for visitor expenditure in 2011; however, is revised upward to 12.0 percent, from 10.8 percent growth projected in the previous forecast. For 2012, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 2.9 percent, 2.7 percent, and 5.4 percent, respectively.

Beyond 2012 DBEDT projects the economy to be on the expansion path with job growth of 1.8 percent in 2013 and 1.5 percent in 2014. Visitor arrivals are expected to increase 2.2 percent in 2013 and 2.3 percent in 2014. Visitor expenditures are expected to increase 4.6 percent in 2013 and 4.3 percent in 2014. Real personal income is projected to increase 1.9 percent in 2013 and 2.2 percent in 2014. Hawaii's real GDP growth is expected to reach 2.0 percent in 2013 and 2.2 percent in 2014.

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

Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	3rd QUARTER 2010	3rd QUARTER 2011	3rd QUARTER % CHANGE YEAR AGO	YEAR-TO-DATE 2010	YEAR-TO-DATE 2011	YEAR-TO-DATE % CHANGE YEAR AGO
Civilian labor force, NSA (persons) 1/	629,550	633,750	0.7	629,550	633,900	0.7
Civilian employed, NSA	587,050	592,650	1.0	587,100	594,050	1.2
Civilian unemployed, NSA	42,500	41,100	-3.3	42,500	39,850	-6.2
Unemployment rate, NSA (%) 1/ 2/	6.7	6.5	-0.2	6.7	6.3	-0.4
Total wage and salary jobs, NSA	586,750	595,350	1.5	590,350	598,300	1.3
Total non-agric. wage & salary jobs	580,500	588,850	1.4	584,100	591,800	1.3
Nat. Resources, Mining, Constr.	28,550	28,950	1.4	28,700	28,450	-0.9
Manufacturing	12,700	12,800	0.8	12,900	12,600	-2.3
Wholesale Trade	17,650	16,850	-4.5	17,600	17,000	-3.4
Retail Trade	65,450	66,450	1.5	65,400	65,850	0.7
Transp., Warehousing, Util.	26,350	25,150	-4.6	26,250	25,600	-2.5
Information	9,850	10,800	9.6	9,800	11,000	12.2
Financial Activities	26,750	26,950	0.7	26,850	26,500	-1.3
Professional & Business Services	71,450	74,550	4.3	70,950	74,250	4.7
Educational Services	14,350	16,900	17.8	14,550	16,750	15.1
Health Care & Social Assistance	60,850	61,850	1.6	60,750	61,650	1.5
Arts, Entertainment & Recreation	10,350	10,100	-2.4	10,300	10,050	-2.4
Accommodation	34,450	35,350	2.6	34,300	35,300	2.9
Food Services & Drinking Places	55,450	56,800	2.4	55,150	56,700	2.8
Other Services	26,350	26,500	0.6	26,350	26,450	0.4
Government	119,950	118,850	-0.9	124,300	123,700	-0.5
Federal	34,850	34,600	-0.7	34,800	34,500	-0.9
State	66,000	65,450	-0.8	70,750	70,600	-0.2
Local	19,100	18,850	-1.3	18,700	18,600	-0.5
Agriculture wage and salary jobs	6,250	6,450	3.2	6,200	6,500	4.8
State general fund revenues ($1,000)	908,912	1,203,445	32.4	3,219,395	3,530,898	9.7
General excise and use tax revenues	611,575	655,038	7.1	1,801,118	1,960,446	8.8
Income-individual	165,284	395,421	139.2	995,532	1,097,703	10.3
Declaration estimated taxes	25,123	50,190	99.8	213,598	289,749	35.7
Payment with returns	14,268	10,047	-29.6	102,792	108,605	5.7
Withholding tax on wages	341,635	359,265	5.2	1,038,457	1,084,485	4.4
Refunds ('-' indicates relative to State)	-215,741	-24,081	-88.8	-359,314	-385,137	7.2
Transient accommodations tax	69,617	79,292	13.9	184,859	235,434	27.4
Honolulu County Surcharge 3/	46,335	(NA)	(NA)	131,786	(NA)	(NA)
Private Building Permits ($1,000)	552,365	537,695	-2.7	1,545,008	1,356,933	-12.2
Residential	196,268	206,655	5.3	616,548	531,821	-13.7
Commercial & industrial	84,270	82,467	-2.1	260,891	177,722	-31.9
Additions & alterations	271,826	248,573	-8.6	667,569	647,390	-3.0
Visitor Days - by air	17,493,772	17,426,049	-0.4	49,070,156	51,105,867	4.1
Domestic visitor days - by air	13,595,501	13,163,251	-3.2	37,717,180	38,944,130	3.3
International visitor days - by air	3,898,271	4,262,798	9.4	11,352,976	12,161,737	7.1
Visitor arrivals by air - by air	1,887,418	1,870,895	-0.9	5,240,578	5,374,850	2.6
Domestic flight visitors - by air	1,381,785	1,335,712	-3.3	3,779,891	3,874,566	2.5
International flight visitors - by air	505,633	535,183	5.8	1,460,687	1,500,284	2.7
Hotel occupancy rates (%) 2/ 4/	77.6	76.9	-0.7	71.2	73.8	2.6
Visitor expend. - arrivals by air ($Mil.)	2,965	3,211	8.3	8,058	9,240	14.7

1/ Labor force and jobs are Hawaii DLIR monthly and annual data. Quarterly averages computed by the Hawaii DBEDT.

2/ Change represents absolute change in rates rather than percentage change in rates.

3/ 0.5% added to the general excise tax to pay for O‘ahu‘s mass transit system and took effect January 1, 2007. Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.

4/ July and August for 3rd quarter, first 8 months for year-to-date.

Source: Hawaii State Department of Business, Economic Development, & Tourism <http://www.hawaii.gov/dbedt/inf>, Hawaii State Department of Labor & Industrial Relations <http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>; Hawaii State Department of Taxation <http://www.hawaii.gov/tax/a5_3txcolrpt.htm> and Hospitality Advisors, LLC.

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2009 TO 2014

Economic Indicators	2009	2010	2011	2012	2013	2014
	(Actual)		(Forecast)			
Total population (thousands)	(NA)	1,360	1,371	1,384	1,397	1,411
Visitor arrivals (thousands) 1/	6,517	7,084	7,298	7,507	7,671	7,848
Visitor days (thousands) 1/	60,837	66,112	68,990	70,835	72,441	74,130
Visitor expenditures (million dollars) 1/	9,993	11,166	12,505	13,167	13,775	14,381
Honolulu CPI-U (1982-84=100)	230.0	234.9	241.9	248.0	253.7	259.5
Personal income (million dollars)	54,595	55,759	57,877	60,135	62,660	65,480
Real personal income (millions of 2000$) 2/	41,839	41,854	42,179	42,755	43,549	44,486
Total wage & salary jobs (thousands)	597.7	593.2	602.1	612.9	624.0	633.3
Gross domestic product (million dollars)	65,428	66,760	68,726	71,048	73,606	76,494
Real gross domestic product (millions of 2005$)	58,602	59,329	60,100	61,182	62,406	63,779
Gross domestic product deflator (2005=100)	111.6	112.5	114.4	116.1	117.9	119.9
Annual Percentage Change						
Total population	(NA)	(NA)	0.8	0.9	1.0	1.0
Visitor arrivals 1/	-4.5	8.7	3.0	2.9	2.2	2.3
Visitor days 1/	-4.7	8.7	4.4	2.7	2.3	2.3
Visitor expenditures 1/	-12.3	11.7	12.0	5.3	4.6	4.4
Honolulu CPI-U	0.5	2.1	3.0	2.5	2.3	2.3
Personal income	-0.2	2.1	3.8	3.9	4.2	4.5
Real personal income 2/	-0.7	0.0	0.8	1.4	1.9	2.2
Total wage & salary jobs	-4.4	-0.8	1.5	1.8	1.8	1.5
Gross domestic product	-1.0	2.0	2.9	3.4	3.6	3.9
Real gross domestic product	-2.6	1.2	1.3	1.8	2.0	2.2
Gross domestic product deflator	1.6	0.8	1.6	1.6	1.6	1.7

NA Not available. The Census Bureau is revising the 2001 to 2009 population estimates based on the results of the 2010 Census.
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.
Source: Hawaii State Department of Business, Economic Development & Tourism, August 24, 2011.

Labor Force and Jobs

Hawaii's labor market conditions continued to improve in the third quarter of 2011 compared to the same quarter in 2010. While the civilian labor force increased in the quarter, civilian employment increased more and civilian unemployment decreased in the quarter. As a result, Hawaii's unemployment rate decreased to 6.5 percent in the quarter. In the first three quarters of 2011, Hawaii's unemployment rate averaged 6.3 percent, 0.4 of a percentage point below the average unemployment rate during the same period last year. For the fourth consecutive quarters since the first quarter of 2008, civilian wage and salary jobs increased in the quarter.

In the third quarter of 2011, the civilian labor force averaged 633,750 people, an increase of 4,200 people or 0.7 percent from the same quarter of 2010. In the first three quarters of 2011, civilian labor force also increased 0.7 percent from the same period last year.

Civilian employment totaled 592,650 people in the third quarter of 2011, an increase of 5,600 people or 1.0 percent compared to the same quarter of 2010. This is the fourth consecutive quarterly increase. In the first three quarters of 2011, average civilian employment increased 1.2 percent from the same period last year.

In the third quarter of 2011, the number of civilian unemployed averaged 41,100 people, decreased 1,400 people or 3.3 percent from the same quarter of 2010. In the first three quarters of 2011, the number of unemployed decreased 6.0 percent from the same period last year.

The unemployment rate (not seasonally adjusted) decreased from 6.7 percent in the third quarter of 2010 to 6.5 percent in the third quarter of 2011. In the first three quarters of 2011, unemployment rate averaged 6.3 percent.

In the third quarter of 2011, Hawaii's civilian wage and salary jobs averaged 595,350 jobs, an increase of 8,600 jobs or 1.5 percent from the same quarter of 2010. This is the fourth quarterly increase in wage and salary jobs after ten consecutive quarterly decreases in jobs since the second quarter of 2008. In the first three quarters of 2011, average wage and salary jobs increased 1.3 percent or 7,950 jobs from the same period last year.

Job increase in the third quarter of 2011 was completely due to job increases in the private sector. In this quarter, the private sector added about 9,450 jobs compared to the third quarter of 2010. Professional and Business Services experienced the largest job gains, added 3,100 jobs; followed by Educational Services (added 2,550 jobs), Food Services and Drinking Places (added 1,350 jobs), Health Care and Social Assistance (added 1,000 jobs), Retail Trade (added 1,000 jobs), and Information (added 950 jobs). Private sector job losses were largest in the Transportation, Warehousing, and Utilities sector (lost 1,200 jobs); followed by the Wholesale Trade sector (lost 800 jobs).

During the third quarter of 2011, the three levels of government together lost 1,100 jobs compared to the same quarter of 2010. The Federal government, the State government, and the Local government lost 250, 550, and 250 jobs, respectively, in the quarter.

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	634,800	0.2	617,900	0.0	2.7
2008	639,650	0.8	613,800	-0.7	4.0
2009	631,800	-1.2	588,650	-4.1	6.8
2010	629,050	-0.4	587,400	-0.2	6.6
2011*	633,900	0.7	594,050	1.2	6.3

* First three quarters.

Source: Hawaii State Department of Labor and Industrial Relations.

Income and Prices

Hawaii's total personal income increased during the second quarter of 2011 over the same quarter of 2010, all major components of personal income increased in the quarter. In dollar terms, the largest increases occurred in wage and salary disbursements, followed by dividends, interest, and rent, personal current transfer receipts, supplements to wage and salaries, which include retirement and unemployment insurance benefits, and proprietors' income.

In the second quarter of 2011, total nominal annualized personal income (i.e., not adjusted for inflation) increased $2,730 million or 4.8 percent from the second quarter of 2010. In the first half of 2011, total annualized personal income was $58,949 million, increased 4.8 percent from the same period of 2010.

In the second quarter of 2011, wage and salary disbursements increased $789 million or 2.9 percent from the second quarter of 2010. This was the fourth quarter-over-quarter increase since the third quarter of 2010. In the first half of 2011, wage and salary disbursements increased 2.8 percent from the same period last 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 $375 million or 4.2 percent in the second quarter of 2011 from the same quarter of 2010. In the first half of 2011, supplements to wages and salaries increased 4.5 percent from the same period last year.

Proprietors' income increased $118 million or 3.3 percent in the second quarter of 2011 over that of 2010. Fin the first half of 2011, proprietors' income was up 4.6 percent from the same period last year.

Dividends, interest, and rent increased $624 million or 5.8 percent in the second quarter of 2011 from the same quarter of 2010. In the first half of 2011, income in this category was up 5.2 percent from the same period last year.

The annualized personal current transfer receipts grew by $596 million or 6.7 percent in the second quarter of 2011 from the same quarter of 2010. In the first half of 2011, personal current transfer receipts increased 6.7 percent from the same period last year.

Contributions to government social insurance, which is subtracted from total personal income, decreased $227 million or 5.1 percent in the second quarter of 2011 compared to the second quarter of 2010. In the first half of 2011, contributions to government social insurance decreased 4.6 percent from the same period of 2010.

In the second quarter of 2011, total non-farm private sector annualized earnings increased $873 million or 3.3 percent from the second quarter of 2010. In dollar terms, the largest increase occurred in accommodation and food services, followed by administrative and waste services, retail trade, professional and technical services, and health care and social assistance; the largest decrease occurred in construction.

During the second quarter of 2011, total government earnings increased $418 million or 2.9 percent from the same quarter of 2010. Federal government earnings increased $277 million or 3.0 percent in the second quarter of 2011. State and local governments showed a $141 million or 2.7 percent increase in the quarter.

In the first half of 2011, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 3.5 percent from the same period in 2010, higher than the U.S. average CPI-U increase of 2.8 percent for the same period. The Honolulu CPI-U increase in the first half of 2011 was primarily due to relatively large increase in Other Goods and Services (7.0 percent), Transportation (6.8 percent), Recreation (3.7 percent), and Education and Communication (3.6 percent). The prices for Housing and Food & Beverages increased 2.9 percent and 2.6 percent, respectively, while the price for Medical Care increased only 0.2 percent compared to the first half of 2010.

Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES

[In millions of dollars at seasonally adjusted annual rates and percent]

Series	First Quarter 2010	Second Quarter 2010	First Quarter 2011	Second Quarter 2011	AnnAver 2009	AnnAver 2010	Percentage change from: To Second Quarter 2011 From: Second Quarter 2010	First Quarter 2011	Ann Aver: 2010 from 2009
PERSONAL INCOME	56,001	56,486	58,682	59,216	54,786	56,811	4.8	0.9	3.7
Earnings By Place of Work	40,891	41,252	42,320	42,534	40,399	41,508	3.1	0.5	2.7
Wage and salary disbursements	28,495	28,669	29,290	29,458	28,545	28,815	2.8	0.6	0.9
Supplements to wages and salaries	8,939	9,004	9,367	9,379	8,641	9,100	4.2	0.1	5.3
Emp'er contrib. for emp'ee pension & ins. funds	6,798	6,800	7,012	7,012	6,636	6,871	3.1	0.0	3.5
Employer contributions for gov't social ins.	2,141	2,204	2,355	2,367	2,005	2,230	7.4	0.5	11.2
Proprietors' income	3,457	3,580	3,664	3,698	3,214	3,593	3.3	0.9	11.8
Farm proprietors' income	47	50	43	39	81	67	-22.0	-9.3	-16.8
Nonfarm proprietors' income	3,410	3,530	3,621	3,659	3,134	3,526	3.7	1.0	12.5
Dividends, interest, and rent	10,693	10,787	11,184	11,411	10,365	10,744	5.8	2.0	3.7
Personal current transfer receipts	8,796	8,901	9,378	9,497	8,256	9,053	6.7	1.3	9.7
State unemployment insurance benefits	654	570	503	497	545	578	-12.8	-1.2	6.1
Personal current transfer receipts exc State U.I.	8,141	8,330	8,875	9,000	7,712	8,476	8.0	1.4	9.9
Less: Contributions for gov't social insurance	4,379	4,454	4,201	4,227	4,235	4,495	-5.1	0.6	6.1
Personal contributions for gov't social insurance	2,238	2,250	1,846	1,860	2,230	2,265	-17.3	0.8	1.5
Employer contributions for gov't social insurance	2,141	2,204	2,355	2,367	2,005	2,230	7.4	0.5	11.2
Earnings By Industry	40,891	41,252	42,320	42,535	40,400	41,508	3.1	0.5	2.7
Farm Earnings	271	274	277	266	276	292	-2.9	-4.0	5.5
Nonfarm Earnings	40,620	40,978	42,043	42,269	40,124	41,217	3.2	0.5	2.7
Private earnings	26,057	26,409	27,072	27,282	25,837	26,570	3.3	0.8	2.8
Forestry, fishing, related activities, and other	41	41	44	44	42	41	7.3	0.0	-1.8
Mining	33	33	32	34	35	33	3.0	6.3	-5.1
Utilities	381	350	409	415	361	379	18.6	1.5	4.8
Construction	2,920	2,906	2,785	2,836	3,002	2,888	-2.4	1.8	-3.8
Manufacturing	744	744	780	781	747	747	5.0	0.1	-0.1
Durable goods	284	278	291	290	270	277	4.3	-0.3	2.6
Nondurable goods	460	465	488	491	477	469	5.6	0.6	-1.5
Wholesale trade	1,069	1,069	1,081	1,065	1,074	1,077	-0.4	-1.5	0.3
Retail trade	2,498	2,502	2,553	2,607	2,440	2,537	4.2	2.1	4.0
Transportation and warehousing	1,322	1,326	1,411	1,380	1,313	1,341	4.1	-2.2	2.2
Information	687	704	737	746	661	724	6.0	1.2	9.5
Finance and insurance	1,302	1,293	1,344	1,339	1,317	1,309	3.6	-0.4	-0.6
Real estate and rental and leasing	695	703	755	761	723	723	8.3	0.8	0.1
Professional and technical services	2,409	2,463	2,544	2,556	2,421	2,470	3.8	0.5	2.1
Management of companies and enterprises	638	609	657	677	607	618	11.2	3.0	1.9
Administrative and waste services	1,651	1,695	1,764	1,820	1,649	1,715	7.4	3.2	4.0
Educational services	654	661	656	651	640	660	-1.5	-0.8	3.1
Health care and social assistance	3,813	3,922	3,913	3,996	3,818	3,902	1.9	2.1	2.2
Arts, entertainment, and recreation	471	483	485	485	494	480	0.4	0.0	-2.8
Accommodation and food services	3,150	3,320	3,521	3,481	2,962	3,326	4.8	-1.1	12.3
Other services, except public administration	1,578	1,584	1,599	1,608	1,535	1,602	1.5	0.6	4.3
Government and government enterprises	14,564	14,569	14,971	14,987	14,286	14,647	2.9	0.1	2.5
Federal	9,284	9,352	9,602	9,629	8,796	9,377	3.0	0.3	6.6
Federal, civilian	3,467	3,561	3,572	3,592	3,249	3,542	0.9	0.6	9.0
Military	5,817	5,791	6,030	6,037	5,547	5,836	4.2	0.1	5.2
State and local	5,279	5,217	5,369	5,358	5,490	5,270	2.7	-0.2	-4.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, September 22, 2011 <http://www.bea.gov/regional/index.html>.

Table 5

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

YEAR	ANNUAL AVERAGE	% CHANGE
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	55,296	5.2
2009	54,786	-0.9
2010	56,811	3.7
2011*	58,949	4.8

* First half of 2011.

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]

Period	U.S.	All Items	Food & Beverages	Housing	Apparel	Transpor- tation	Medical Care	Recre- ation	Educ. & Comm.	Other Goods & Services
2001	177.1	178.4	169.5	179.1	101.0	174.5	(1/)	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	(1/)	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	(1/)	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	(1/)	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	(1/)	101.1	114.0	332.1
2007	207.342	219.504	204.942	238.428	104.145	205.027	(1/)	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
2010H1	217.535	233.822	224.627	250.940	116.564	213.842	321.243	106.585	125.888	406.880
H2	218.576	235.916	224.922	252.995	116.281	214.980	319.064	108.382	131.078	424.172
2011H1	223.599	241.902	230.565	258.121	119.380	228.484	321.891	110.544	130.444	435.239
Percentage Change from the Same Period in Previous Year										
2001	2.8	1.2	2.9	0.7	-2.4	2.9	(1/)	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	(1/)	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	(1/)	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	(1/)	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	(1/)	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	(1/)	3.4	-0.3	3.5
2007	2.8	4.8	5.5	7.2	-0.2	1.4	(1/)	1.5	0.0	4.6
2008	3.8	4.3	5.7	4.3	1.1	4.4	(1/)	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
2010H1	2.1	2.5	-0.1	0.9	1.9	11.5	-0.3	0.9	4.1	4.7
H2	1.2	1.7	0.5	0.9	4.5	2.9	-0.6	3.4	5.1	5.5
2011H1	2.8	3.5	2.6	2.9	2.4	6.8	0.2	3.7	3.6	7.0

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.

1/ 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 18, 2011.

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Tourism

Hawaii's tourism sector performance was mixed in the third quarter of 2011. The number of visitors arriving by air to Hawaii and the visitor days by air both decreased in the quarter; however, total visitor spending increased in the quarter. In the first three quarters of 2011, visitors arriving by air, visitor days by air, and total visitor spending all increased compared to the same period last year.

In the third quarter of 2011, domestic visitor arrivals by air decreased 46,073 or 3.3 percent; while international arrivals increased 29,550 or 5.8 percent. Since the increase in international arrivals was not enough to offset the decrease in domestic arrivals in the quarter, the total number of visitors arriving by air decreased 16,523 or 0.9 percent in the quarter. Due to slightly longer lengths of stay, the decrease in visitor days was lower than the decrease in visitor arrivals. In the third quarter of 2011, domestic visitor days decreased 432,250 days or 3.2 percent; while international visitor days increased 364,526 days or 9.4 percent; and total visitor days decreased 67,723 days or 0.4 percent. Since visitors spent more on a daily basis during the third quarter, total visitor spending increased $246.1 million or 8.3 percent in the quarter.

In the first three quarters of 2011, total visitor arrivals by air increased 134,272 or 2.6 percent; total visitor days by air increased 2,035,712 days or 4.1 percent; and total visitor spending increased $1,181.8 million or 14.7 percent compared with the same period of 2010. Arrivals on domestic flights increased 94,675 or 2.5 percent; arrivals on international flights increased 39,597 or 2.7 percent; domestic visitor days increased 1,226,950 days or 3.3 percent; international visitor days increased 808,761 days or 7.1 percent in the first three quarters of 2011.

Based on the most recent data available, in July and August of 2011, statewide hotel occupancy rate averaged 76.9 percent, down 0.7 of a percentage point from the same period of 2010. In the first eight months of 2011, statewide hotel occupancy rate averaged 73.8 percent, up 2.6 percentage points from the same period of 2010.

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Table 7

VISITOR ARRIVALS BY AIR

Average Length of Stay, Visitor Days, Average Daily Census

	2007	2008	2009	2010	% change 2007-2008	% change 2008-2009	% change 2009-2010
Arrivals							
Total	7,496,820	6,713,436	6,420,448	6,982,425	-10.4%	-4.4%	8.8%
Domestic	5,582,530	4,901,893	4,672,001	5,022,883	-12.2%	-4.7%	7.5%
International	1,914,290	1,811,543	1,748,447	1,959,542	-5.4%	-3.5%	12.1%
Average Lenth of Stay							
Total	9.22	9.40	9.38	9.39	2.0%	-0.2%	0.1%
Domestic	9.87	10.10	10.09	10.04	2.3%	-0.1%	-0.4%
International	7.33	7.53	7.51	7.74	2.6%	-0.2%	3.0%
Visitor Days							
Total	69,135,310	63,130,133	60,255,061	65,598,078	-8.7%	-4.6%	8.9%
Domestic	55,100,441	49,497,350	47,121,337	50,435,228	-10.2%	-4.8%	7.0%
International	14,034,869	13,632,783	13,133,724	15,162,850	-2.9%	-3.7%	15.4%
Average Daily Census							
Total	189,412	172,487	165,082	179,721	-8.9%	-4.3%	8.9%
Domestic	150,960	135,239	129,100	138,179	-10.4%	-4.5%	7.0%
International	38,452	37,248	35,983	41,542	-3.1%	-3.4%	15.4%

Source: Hawaii Tourism Authority.

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Table 8

HOTEL OCCUPANCY RATE (%)

Year	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	***Annual Average***
In Percent					
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	75.3	69.5	70.7
2011 1/	77.0	68.6	76.9	Year-to-Date	73.8

1/ July and August for 3rd quarter, first 8 months for year-to-date.
Source: Hawaii State Department of Business, Economic Development & Tourism, and Hospitality Advisors LLC.

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Construction and Real Estate

The indicators of Hawaii's construction industry were mostly negative in the third quarter of 2011. Both government contracts awarded and the value of private building authorizations decreased in the third quarter of 2011 compared with the same quarter of 2010. Construction jobs, however, increased in the third quarter of 2011 from the same period last year.

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, number of construction job reached a peak of 40,000 jobs. From the second quarter of 2008 to the first quarter of 2011, however, the quarter-over-quarter growth rate of construction jobs has been negative in all quarters. In the third quarter of 2011, the construction sector gained 400 jobs or 1.4 percent compared with the same quarter of 2010. In the first three quarters of 2011, construction job decreased 0.9 percent or 250 jobs from the same period of 2010.

According to the most recent data available, in the third quarter of 2011, the total value of private building authorizations decreased $14.7 million or 2.7 percent compared with the same quarter of 2010; the value of new residential permits was up $10.4 million or 5.3 percent; that of new commercial and industrial permits was down $1.8 million or 2.1 percent; and that of additions and alternations permits was down $23.3 million or 8.6 percent, compared to the same quarter of 2010. In the first three quarters of 2011, total private building authorizations decreased $188.1 million or 12.2 percent compared with the same period of 2010.

In the third quarter of 2011, the value of total private building permits decreased in Honolulu and Kauai but increased in Maui and Hawaii County compared with the same quarter of 2010. Honolulu decreased $49.2 million or 12.3 percent; Kauai County decreased $9.8 million or 45.3 percent; Hawaii County increased $20.9 million or 27.2 percent, and Maui County increased $23.4 million or 44.2 percent in the quarter. In the first three quarters of 2011, building permits in Honolulu decreased $147.0 million; Hawaii County decreased $41.5 million; Kauai County decreased $5.3 million; only Maui increased $5.8 million.

Government contracts awarded decreased $228.1 million or 64.7 percent in the third quarter of 2011 compared to the same quarter of 2010. In the first three quarters of 2011, government contracts awarded decreased $526.4 million or 66.7 percent compared with the same period of 2010.

According to the most recent data available, in the second quarter of 2011, the single-family housing unit authorizations decreased 68 units compared to the second quarter of 2010; the number of multi-family units authorized decreased 148 units compared to the same quarter of 2010. In the first half of 2011, the single-family unit authorizations decreased 68 units, while the number of multi-family units authorized decreased 1,014 units, compared to the same period of 2010.

The Honolulu Construction Cost Indexes increased 2.6 percent for Single Family Residence and increased 2.7 percent for High-Rise Building in the second quarter of 2011 over that of 2010.

In September 2011, Honolulu's median price for single family resales was $570,000, a decrease of 8.1 percent from the same month in 2010; the median price for condominium units decreased 4.1 percent to $316,500 compared to the same month in 2010. In the first three quarters of 2011, the median price for single family units decreased 4.7 percent and the median price for condominium units decreased 0.8 percent compared to the same period last year. In September 2011, the number of single-family unit resales was up 11 units or 4.0 percent, and the number of condominium unit resales was up 58 units or 19.0 percent from the same month of 2010. In the first three quarters of 2011, the number of single-family unit resales was down 52 units or 2.3 percent, and the number of condominium unit resales was up 41 units or 1.4 percent from the same period of 2010.

In the first three quarters of 2011, the Maui County median price for single-family unit and condominium unit resales decreased 6.3 percent and 20.2 percent, respectively, from the same period last year. In the first three quarters of 2011, the number of single-family unit resales was up 48 units or 7.7 percent in Maui, and the number of condominium unit resales was down 10 units or 1.1 percent from the same period of 2010.

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/				Government Contracts Awarded
		Total Private Authorizations	Residential	Commercial & Industrial 3/	Additions & Alterations	
In Millions of Dollars						
2001	3,766.4	1,585.7	882.4	329.1	374.2	715.7
2002	4,275.0	1,772.0	1,112.9	254.2	404.9	768.3
2003	4,536.3	2,361.2	1,345.1	507.5	508.6	633.4
2004	4,921.5	2,726.5	1,767.7	303.3	655.6	1,384.6
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 1 Qtr.	1,427.0	455.3	235.4	53.1	166.9	83.1
2 Qtr.	1,301.9	537.3	184.9	123.5	228.9	353.7
3 Qtr.	1,487.7	552.4	196.3	84.3	271.8	352.6
4 Qtr.	1,373.2	435.3	162.5	116.6	156.2	268.2
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.	(NA)	537.7	206.7	82.5	248.6	124.5
Percentage Change from the Same Period in Previous Year						
2001	4.2	4.8	10.3	33.7	-19.7	-11.7
2002	13.5	11.7	26.1	-22.8	8.2	7.3
2003	6.1	33.3	20.9	99.7	25.6	-17.6
2004	8.5	15.5	31.4	-40.2	28.9	118.6
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 1 Qtr.	-19.8	-16.0	-14.8	36.7	-26.5	-50.3
2 Qtr.	-24.6	14.2	15.2	26.9	7.6	79.3
3 Qtr.	-5.8	-1.2	1.5	49.1	-12.0	50.8
4 Qtr.	-11.7	1.9	-3.9	26.6	-6.0	48.7
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.	(NA)	-2.7	5.3	-2.1	-8.6	-64.7

1/ Formerly, this category was "Value of Construction Completed", subject to revision by Hawaii State Department of Taxation.
2/ Beginning in 2002 Kauai data available for residential 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					
2002	1,772,027	876,049	449,601	172,660	273,716
2003	2,361,233	1,109,568	629,147	153,242	469,277
2004	2,726,536	1,320,552	826,494	130,659	448,831
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 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
Percentage Change From The Same Period in Previous Year					
2002	11.7	28.3	18.2	28.6	-12.5
2003	33.3	26.7	39.9	-11.2	71.4
2004	15.5	19.0	31.4	-14.7	-4.4
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 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

1/ Beginning with 2002, Kauai data available for residential only.
Source: County building departments.

Federal Government and Military

The Federal government plays an important role in Hawaii's economy. According to the most recent data available, total federal direct expenditures or obligations in Hawaii reached $20.9 billion in the federal fiscal year ending September 30, 2010, an increase of 9.8 percent over the previous year. Between federal fiscal years 2000 and 2010, the annual average growth rate for federal expenditures was about 8.7 percent.

In 2010, total federal government compensation of employees in Hawaii reached $9.4 billion, an increase of 6.6 percent from 2009. Federal government compensation of employees in Hawaii accounted for about 24.7 percent of total compensation of employees in 2010. Between 2000 and 2010, the annual average growth rate for federal government compensation of employees in Hawaii was 7.4 percent. Federal military accounted for 62.2

percent of the total Federal compensation in 2010. According to the most recent data available, federal government accounted for about 14.5 percent of State GDP in Hawaii in 2010, 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 half of 2011 increased 3.2 percent compared to the same period of 2010. For the whole year of 2010, total earnings of federal government personnel increased 6.6 percent from the previous year. In 2010, total military earnings and total federal civilian earnings increased 9.0 percent and 5.2 percent, respectively, from the previous year.

In FY 2010, the Department of Defense (DoD) spent $10.0 billion in Hawaii. This spending generated $14.9 billion total output, accounted for more than 127,610 jobs, and 9.4 billion in household income in the Hawaii's economy in 2010.

In FY 2010, DoD spent $2.4 billion on procurement contracts, of which one-fourth was on construction. A major contributing factor to military constructions over the past five years have been the Public/Private Venture military housing partnership between the Army and Air Forces with Actus Lend Lease and Department of the Navy (Navy and Marine housing) partnership with Forest City. Demand for new military housing is expected to continue to support economic growth in Hawaii. Most of the construction efforts will focus on the Army's housing projects ranging from Fort Shafter to Helemano Military Reservation and Schofield Barracks, $1.2 billion worth of military construction projects by Actus Lend Lease are expected to generate about 7,200 construction jobs.

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.

Banks and Other Financial Institutions

As of December 31, 2010, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at $33.08 billion, a 3.85% increase from December 31, 2009. The five State-chartered banks accounted for $32.50 billion of such assets.

Transportation

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

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 2007, 2008, 2009 and 2010 amounted to 21.5 million short tons, 21.1 million short tons, 18.3 million short tons and 17.7 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; (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

10,541 in fiscal year 2007, 11,005 in fiscal year 2008, 10,033 in fiscal year 2009 and 7,832 in fiscal year 2010. 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 10.2 million short tons in fiscal year 2007, 10.1 million short tons in fiscal year 2008, 8.9 million short tons in fiscal year 2009 and 8.9 million short tons in fiscal year 2010. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan ("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. The modernization projects have been integrated into the administration's New Day Work Projects, a capital improvements program comprised of priority public works projects deemed critical to create jobs and jumpstart the economy.

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 2011, the Airports Division recorded a total of 891,862 aircraft operations as compared to 881,389 for fiscal year 2010. In addition, total passenger counts for fiscal year 2011 increased slightly from 30,184,981 in fiscal year 2010 to 30,590,527. The increases are indications of an economic recovery as airport concession revenues are improving as well.

Until March 31, 2008, inter-island air travel in Hawaii was primarily served by Aloha Airlines and Hawaiian Airlines. In June 2006, Mesa Air Group began inter island service as go! Airlines. On March 20, 2008, Aloha Airlines, Inc. filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Hawaii. On March 31, 2008, Aloha Airlines ceased all passenger operations. On April 29, 2008, Aloha Airlines, which had handled approximately 85% of Hawaii's inter-island air cargo, ceased all air cargo operations as well as maintenance cleaning services. Almost immediately thereafter, such operations were taken over by Aeko Kula, Inc. (cargo) and Aloha Contract Services LLC (maintenance services). In October 2008, Mokulele Airlines expanded its inter-island service utilizing a portion of the former Aloha Airlines hold rooms and baggage areas. Effective October 15, 2009, go! Airlines and Mokulele Airlines consolidated their operations and are operating as go! Mokulele Airlines.

The Airports Division's modernization program is under way and includes significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona and Lihue. The program is currently estimated to cost $1.4 billion through 2016 and will be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,276.9 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.6 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 946 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The 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 monies. 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, 2010.

Motor Vehicle Registration

Calendar Year	Passenger Vehicles	Ambulances & Hearses	Buses	Trucks	Motorcycles & Scooters	Trailers	Total
2001	775,737	58	2,847	169,223	19,286	25,412	992,563
2002	792,482	62	2,814	171,813	20,427	25,996	1,013,594
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	29,436	31,601	1,151,681

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

Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2011-2012 school year, system enrollment increased from a total of 178,189 in the 2010-2011 school year to a total of 181,213 in 286 K-12 public schools (includes 31 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 Department of Education schools has decreased and the number of students in 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 (scheduled completion in early 2013) at 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, 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 2009, 57,945 students attended the University of Hawaii system, 20,435 of them on the Manoa Campus. In the fall of 2010, 60,090 students attended the University of Hawaii system, 20,337 of them on the Manoa campus. In the fall of 2011, 60,330 students attended the University of Hawaii System, 20,429 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, 2010 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, 2011, 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, 2011

General obligation bonds outstanding		$4,940,905,000
Less excludable reimbursable general obligation bonds [1]		
Highways	$23,818,990	
Harbors	36,221,269	
University of Hawaii	1,032,314	
Parking facilities	93,424	
Hawaiian Home Lands	269,131	
Subtotal excludable reimbursable general obligation bonds	$61,435,128	
Less all general obligation bonds maturing in the current year	$195,997,323	$ 257,432,451
Net general obligation bonds outstanding		$4,683,472,549

Footnotes on following page.

REVENUE BOND INDEBTEDNESS [2]
As of July 1, 2011

Revenue bonds outstanding:		
Airports:		
Airports system	$967,410,000	
Airports special facility	31,840,000	$ 999,250,000
Housing:		
Single family mortgage purchase	185,370,000	
Multifamily	285,005,979	470,375,979
Harbors:		
Revenue		379,750,000
Highway:		
Revenue		319,850,000
University of Hawaii:		
Revenue		637,045,000
Hawaiian Home Lands		41,205,000
Health Systems		8,000,000
Total revenue bonds outstanding		$2,855,475,979

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS [3]
As of July 1, 2011

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$ 713,510,000
Utilities serving the general public	1,007,900,000
Industrial enterprises	13,562,500
Processing enterprises	7,700,000
Not-for-profit secondary schools, colleges and university serving the general public	28,715,000
Total special purpose revenue bonds outstanding	$1,771,387,500

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[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, 2011

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	**2008-2009**	**2009-2010**	**2010-2011**
Total General Fund revenues exclusive of Grants from the federal government	$ 5,052,013,550	$4,852,381,367	$5,116,908,466
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	17,028,594	11,186,709	14,262,183
Net General Fund revenues	$ 5,034,987,956	$4,841,194,658	$5,102,646,283
Sum of net General Fund revenues for preceding three fiscal years	$14,978,828,897		
Average of preceding three fiscal years	$ 4,992,942,966		
18½% of average net General Fund revenues of the three preceding years ended June 30, 2009, 2010 and 2011	$ 923,694,449[1]		

[1]The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2011, and on the Bonds, after exclusions permitted by the Constitution, is $618,710,580 in the fiscal year ending June 30, 2015.

NOTE: This Summary Statement is based on the July 1, 2011 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, 2011

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds [1]			
From State Special Funds for			
Highways	$ 23,818,990		
Commercial Harbors	$ 36,221,269		
Small Boat Harbors [2]	$ 3,757,516		
Hawaiian Home Lands	$ 269,131		
University of Hawaii	$ 1,032,314		
Parking Facilities	$ 93,424		
Waiahole Water System [2]	$ 7,071,626		
Convention Center [2]	$258,340,289		
Total for Special Funds	$330,604,559		
Total Reimbursable General Obligation Bonds		$ 330,604,559	6.69%
Non Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$4,610,300,441		
Total Non-reimbursable General Obligation Bonds		$4,610,300,441	93.31%
Total General Obligation Bonds Issued and Outstanding		$4,940,905,000	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, 2011

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, 2011, including the Refunded Bonds, and on the Bonds. Further detail concerning the State's various outstanding general obligation indebtedness is set forth in Appendix D hereto.

							Debt Service on Series DZ, EA, EB, EC and ED[3]		
Fiscal Year Ending June 30	Total Remaining Principal Amount[1]	Total Principal Payable	Total Interest Payable	Total Debt Service Payable	Less Amounts Reimbursable to General Fund[2]	Net Debt Service Payable	Total Principal Payable	Total Interest Payable	Total Debt Service
2012	$4,854,670,000	$ 118,425,000	$157,363,687	$275,788,687	$35,077,935	$240,710,752	$ 0	$30,105,274.59	$270,816,026.59
2013	4,736,245,000	371,230,000	224,868,890	596,098,890	35,938,986	560,159,904	2,800,000	62,258,775.00	625,218,679.00
2014	4,365,015,000	386,725,000	207,368,652	594,093,652	35,014,625	559,079,027	56,225,000	60,989,775.00	676,293,802.00
2015	3,978,290,000	436,755,000	189,334,874	626,089,874	34,709,422	591,380,452	0	59,748,775.00	651,129,227.00
2016	3,541,535,000	409,620,000	168,145,076	577,765,076	33,124,055	544,641,021	23,750,000	59,206,425.00	627,597,446.00
2017	3,131,915,000	441,250,000	148,585,415	589,835,415	32,728,343	557,107,072	76,015,000	56,811,075.00	689,933,147.00
2018	2,690,665,000	388,755,000	128,200,483	516,955,483	31,485,094	485,470,389	79,800,000	53,029,800.00	618,300,189.00
2019	2,301,910,000	338,730,000	111,281,569	450,011,569	30,417,121	419,594,448	83,805,000	49,021,837.50	552,421,285.50
2020	1,963,180,000	272,940,000	95,567,657	368,507,657	30,417,931	338,089,726	87,990,000	44,839,000.00	470,918,726.00
2021	1,690,240,000	219,995,000	83,283,609	303,278,609	30,420,401	272,858,208	92,295,000	40,539,100.00	405,692,308.00
2022	1,470,245,000	233,310,000	72,315,001	305,625,001	30,417,896	275,207,105	96,795,000	36,032,800.00	408,034,905.00
2023	1,236,935,000	226,270,000	60,794,102	287,064,102	30,417,213	256,646,889	101,560,000	31,269,481.25	389,476,370.25
2024	1,010,665,000	228,760,000	49,733,655	278,493,655	30,417,893	248,075,762	106,670,000	26,158,962.50	380,904,724.50
2025	781,905,000	198,380,000	38,815,482	237,195,482	30,422,683	206,772,799	49,995,000	22,252,337.50	279,020,136.50
2026	583,525,000	184,480,000	29,451,766	213,931,766	30,424,388	183,507,378	52,525,000	19,722,337.50	255,754,715.50
2027	399,045,000	142,940,000	20,576,616	163,516,616	28,145,958	135,370,658	55,185,000	17,062,587.50	207,618,245.50
2028	256,105,000	119,395,000	13,233,627	132,628,627	1,365,184	131,263,443	57,995,000	14,255,806.25	203,514,249.25
2029	136,710,000	92,585,000	7,048,345	99,633,345	428,556	99,204,789	60,945,000	11,305,025.00	171,454,814.00
2030	44,125,000	44,125,000	2,440,113	46,565,113	429,270	46,135,843	64,070,000	8,179,650.00	118,385,493.00
2031	0	0	0	0	430,068	-430,068	67,260,000	4,988,675.00	71,818,607.00
2032	0	0	0	0	430,933	-430,933	70,550,000	1,699,725.00	71,818,792.00

[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, 2011.

[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 $35,077,935 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2012, only $7,887,105 is an excludable reimbursement for purposes of the debt limit calculation under the Constitution. See "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix A for the sources of reimbursement, including taxes.

[3] As of the date of delivery thereof.

BONDED DEBT PER CAPITA
(Amounts in thousands except "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
2006	1,285	$4,322,964	$7,226	$4,315,738	$3,359
2007	1,299	$4,079,714	$21,704	$4,058,010	$3,124
2008	1,292	$4,408,572	$22,002	$4,386,570	$3,395
2009	1,298	$4,779,666	$67,756	$4,711,910	$3,630
2010	1,300	$5,157,198	$118	$5,157,080	$3,967

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

Certificates of Participation

In November 1998, the State executed a Lease 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 State does not anticipate that it will issue certificates of participation other than the certificates or participation referenced in the preceding sentence during the current fiscal year, and would require legislative authorization to do so.

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 in 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 prescribed 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 September 30, 2011, 30% of the State's investment portfolio and cash in banks consisted of repurchase agreements with banks, 26% consisted of time certificates with banks, 17% consisted of student loan resource securities (which are auction rate securities), 23% consisted of U.S. Federal Agency and Government Sponsored Entity Securities and 4% consisted of cash in bank accounts. The State has made portfolio adjustments sufficient in its view to address liquidity concerns relating to its student loan resource securities. In view of its conservative investment policies, the State anticipates that it will not need to sell its student loan resource securities at a discount, and that it will receive par for such securities upon their respective redemptions or stated maturities. On November 23, 2010, the State and Citigroup Global Markets, Inc. (CGMI) entered into a Settlement Agreement whereby in June, 2015, the State will have the option to require CGMI to purchase some or all of its outstanding student loan auction rate securities at par as well as to require CGMI to pay the State the difference between the liquidation price and par for any securities involuntarily liquidated below par.

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, valued at least equal to par, or market value but not to exceed par, or 95% of market value but not to exceed par, depending on the securities 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, the State warrants or warrant notes direct obligations of other states or city or county in the continental United States, certificates of deposit issued through the Certificate of Deposit Account Registry Service 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. Collateralized mortgage obligations are also unacceptable as collateral for State deposits.

The collateral pledged by depositories is monitored by the Director of Finance on a computerized system, which determines the adequacy of the amount of collateral pledged by depositories on a daily basis.

Investment Yield

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

As of June 30, 2011, $4.2 million was credited to the General Fund as investment earnings. The total investment income represents an average return on investment for the General Fund of 0.79%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2006 to 2010. 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, 2010, 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)

	2006	2007	2008	2009	2010
ASSETS:					
Cash	$272,209	$171,720	$318,708	$97,454	$134,232
Advances to other funds	-	-	-	-	-
Due from other funds	162,000	154,083	90,886	149,795	149,467
Due from Component Units	19,300	33,830	28,958	38,662	34,916
Receivables:					
Taxes	333,900	388,100	370,055	312,936	123,459
Notes	4,700	4,175	3,834	3,487	3,281
Other	6,565	9,514	5,327	16,084	2,274
Total receivables	345,165	401,789	379,216	332,507	129,014
Investments	719,624	832,645	514,026	75,805	80,448
TOTAL ASSETS	$1,518,298	$1,594,067	$1,331,794	$694,223	$528,077
LIABILITIES AND FUND EQUITY:					
Liabilities:					
Vouchers payable	$157,063	$76,367	$129,527	$95,151	$112,010
Other accrued liabilities	65,018	153,408	150,293	349,997	342,001
Due to other funds	83	42	42	22,068	12,718
Due to Component Units	7,965	41,558	54,243	25,973	10,182
Deferred revenue	24,600	26,482	23,331	16,014	18,232
TOTAL LIABILITIES	254,729	297,857	357,436	509,203	495,143
FUND EQUITY:					
Reserves:					
Unrealized receivables	4,712	4,185	3,843	3,487	3,281
Encumbrances	231,306	327,739	384,520	250,190	222,865
Unencumbered allotments	13,563	82,975	18,530	18,880	17,339
Total reserves	249,581	414,899	406,893	272,557	243,485
Unreserved fund balance:					
Designated for future expenditures					
Undesignated	78,841	224,260	103,557	0	0
Total fund equity	935,147	657,051	463,908	(87,537)	(210,551)
	1,263,569	1,296,210	974,358	185,020	32,934
TOTAL LIABILITIES AND FUND EQUITY	$1,518,298	$1,594,067	$1,331,794	$694,223	$528,077

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

	2005-2006	% of Total	2006-2007	% of Total	2007-2008	% of Total	2008-2009	% of Total	2009-2010	% of Total
REVENUES:										
General excise tax	$2,359,316	50.83	$2,632,485	54.24	$2,597,121	53.59	$2,410,756	55.09	$2,279,310	51.37
Income tax-corporation	115,660	2.49	75,151	1.55	88,713	1.83	51,875	1.19	57,394	1.29
Income tax-individual	1,548,671	33.37	1,543,419	31.80	1,548,552	31.96	1,322,018	30.21	1,351,571	30.46
Service companies tax	120,678	2.60	124,017	2.56	127,481	2.63	126,069	2.88	157,661	3.55
Liquor licenses and taxes	45,955	0.99	46,034	0.95	45,620	0.94	47,243	1.08	44,074	0.99
Tobacco licenses and taxes	86,827	1.87	84,247	1.74	83,443	1.72	76,955	1.76	85,502	1.93
Insurance premiums tax	88,068	1.90	94,377	1.94	94,587	1.95	93,720	2.14	104,667	2.36
Inheritance and estate tax	4,017	0.09	162	0.00	164	0.00	274	0.01	0	0.00
Banks and financial corporation tax	16,324	0.35	17,012	0.35	18,213	0.38	26,075	0.60	18,666	0.42
Transient accommodations tax*	16,129	0.35	6,382	0.13	15,756	0.33	13,408	0.31	31,635	0.71
Conveyance tax	20,160	0.43	7,749	0.16	6,156	0.13	8,768	0.20	17,918	0.40
Total Taxes	4,421,805	95.27	4,631,035	95.43	4,625,806	95.46	4,177,161	95.45	4,148,398	93.50
Charges for current services and other revenues	219,590	4.73	221,977	4.57	220,089	4.54	198,947	4.55	288,401	6.50
TOTAL REVENUES	$4,641,395	100.00	$4,853,012	100.00	$4,845,895	100.00	$4,376,108	100.00	$4,436,799	100.00
EXPENDITURES:										
General government	$366,761	9.20	$355,090	7.96	$407,147	8.51	$357,479	7.22	$344,110	8.14
Public safety	222,855	5.59	256,072	5.74	280,962	5.87	287,883	5.82	294,576	6.97
Conservation of natural resources	32,936	0.83	38,445	0.86	46,489	0.97	56,813	1.15	35,390	0.84
Health	455,388	11.42	558,748	12.53	573,929	11.99	609,783	12.32	503,625	11.92
Welfare	652,371	16.37	702,526	15.76	744,547	15.56	669,612	13.53	712,900	16.87
Education:										
Higher	574,836	14.42	660,336	14.81	697,333	14.57	735,348	14.86	525,446	12.43
Lower and others	1,593,538	39.98	1,781,873	39.96	1,889,035	39.47	2,121,087	42.86	1,725,192	40.82
Culture-recreation	40,574	1.02	42,259	0.95	53,805	1.12	45,576	0.92	35,884	0.85
Urban redevelopment & housing	14,486	0.36	28,060	0.63	52,035	1.09	22,619	0.46	20,386	0.48
Economic development and assistance	32,162	0.81	35,586	0.80	39,752	0.83	41,305	0.83	28,269	0.67
Other	-	0.00	-	0.00	528	0.01	1,909	0.04	114	0.00
TOTAL EXPENDITURES	$3,985,907	100.00	$4,458,995	100.00	$4,785,562	100.00	$4,949,414	100.00	$4,225,892	100.00
OTHER FINANCING SOURCES (USES):										
Transfers in	11,485	-	50,558	-	37,470	-	114,963	-	16,586	-
Transfers out	(386,559)	-	(432,737)	-	(438,530)	-	(361,534)	-	(382,767)	-
Other	17,585	-	20,803	-	18,875	-	30,539	-	3,188	-
TOTAL OTHER FINANCING SOURCES (USES)	$(357,489)	-	$(361,376)	-	$(382,185)	-	$(216,032)	-	$(362,993)	-

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

REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

The Constitution requires that there be established by law a Council on Revenues (the "Council") to prepare revenue estimates of the State government and to report such estimates to the Governor and the Legislature. The revenue estimates serve as the basis for the Governor's budget preparation and the Legislature's appropriation of funds and enactment of revenue measures. If the Council's latest revenue estimates are not used by the Governor or the Legislature for budget preparation or appropriations, respectively, then the party not using the latest estimates must publicly state the reasons for using a differing revenue estimate. Act 278, SLH 1980, provided for the establishment of such a council consisting of seven members, with three members appointed by the Governor and two members each appointed by the President of the Senate and the Speaker of the House. The Council 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 from January 2009 through September 2011, inclusive.

In January 2009, with the continuing deterioration of Hawaii's economic outlook, the Council reduced its growth rate from negative 0.5% to negative 3.0% for fiscal year 2009, from 3.5% to 1.0% for fiscal year 2010, and from 4.5% to 3.5% for fiscal year 2011. The Council was concerned that tourism may not recover until the second half of fiscal year 2010 and construction may continue to decline for the next several years. The Council kept its growth rates for fiscal years 2012 through 2015.

In March 2009, while believing that the downturn in Hawaii's economy may be nearing a bottom to be followed by a gradual strengthening over several years, the Council continued to be concerned about Hawaii's increasing unemployment, the global recession and the uncertainty regarding the impact of the federal fiscal stimulus on Hawaii's economy. Accordingly, the Council reduced its growth rate from negative 3.0% to negative 5.0% for fiscal year 2009 and from 1.0% to 0.5% for fiscal year 2010. The Council raised its growth rate from 3.5% to 5.0% for fiscal year 2011, made slight revisions to its forecast for fiscal years 2012 through 2014 and reduced its growth rate from 6.5% to 4.9% for fiscal year 2015.

In May 2009, the Council further reduced its forecasted growth rate from negative 5.0% to negative 9.0% for fiscal year 2009 and from a positive 0.5% to 0% for fiscal year 2010.

In August 2009, the Council reported that actual general fund tax revenues decreased by negative 9.5% for fiscal year 2009. The Council also reduced its forecasted growth rate from zero to negative 1.5% for fiscal year 2010. Believing that the downturn in Hawaii's economy may be nearing a bottom, to be followed by a gradual recovery over several years, the Council increased its forecasted growth rate from 5.6% to 6.5% for fiscal year 2011 and from 5.2% to 6.0% for fiscal year 2012. The growth rates for subsequent fiscal years remained relatively unchanged.

In September 2009, the Council corrected the amount it reported for taxes collected in fiscal year 2009. Conveyance taxes were increased by $1.5 million and individual income taxes were increased by $0.4 million; in total, taxes were increased by $1.9 million.

In December 2009, the Council reduced its growth rate from negative 1.5% to negative 2.5% for fiscal year 2010. Believing that the downturn in Hawaii's economy may be nearing a bottom, to be followed by a gradual recovery over several years, the Council increased its forecasted growth rate from 6.5% to 7.6% for fiscal year 2011.

In March 2010, the Council retained its growth rate for fiscal year 2010 of negative 2.5% and lowered its growth rate for fiscal year 2011 from 7.6% to 6.0%.

In June 2010, the Council raised its growth rate for fiscal year 2010 from negative 2.5% to 4.0% and for fiscal year 2011 from 6.0% to 6.2%. The increases primarily reflected the Department of Taxation plans to partially delay individual income tax refund payouts from June 2010 to July 2010; thereby increasing tax collections for fiscal year 2010 and decreasing tax collections for fiscal year 2011. Had the delay in refund payments not taken place, the Council's forecast would have been 0.5% (instead of 4.0%) for fiscal year 2011 and 8.0% (instead of 6.2%) for fiscal year 2012. The Council believed that the economy was improving, with payroll employment rising, international tourism increasing and construction spending stabilizing and recovering.

For fiscal year 2010, actual general fund tax revenues increased by 3.9%, closely matching the Council's projection of 4.0%.

In September 2010, the Council lowered its forecast for fiscal year 2011 from 6.2% to 2.0% and raised its forecast for fiscal year 2012 from 5.8% to 10.0%. The revisions primarily reflected the impact of the delay in individual income tax refund payments in fiscal year 2010. The refunds delayed in June 2010 and paid out in July 2010 meant that approximately 4 percentage points of revenues were shifted from fiscal year 2011 to 2010; i.e., approximately 4 percentage points of revenues that would have been collected in fiscal year 2011 were collected in fiscal year 2010. Thus, the fiscal year 2011 growth rate was lowered from 6% to 2%. In addition, because of the lower growth rate in fiscal year 2011, the growth rate for fiscal year 2012 was affected, increasing from 6% to 10%. The underlying revenue forecast was largely unchanged and the Council felt that the pace of the ongoing economic recovery was close to its expectations.

In January 2011, the Council raised its growth rate for fiscal year 2011 from 2.0% to 3.0%, primarily due to the rise in total visitor arrivals.

In March 2011, the Council lowered its growth rate for fiscal year 2011 from 3.0% to 0.5% and raised its growth rate for fiscal year 2012 from 10.0% to 11.0%. The increase in visitor arrivals in March – September 2010 did not continue and, along with rising petroleum prices due to conflicts in North Africa, the Council was concerned that the pace of the economic recovery had diminished.

In April 2011, at the request of the Governor, the Council met to review its forecast in light of the earthquake in Japan in addition to the political turbulence in North Africa and the Middle East and its impact on petroleum prices and expected reductions of federal expenditures in Hawaii. As a result of these discussions and data on the latest tax collections through February 2011, the Council lowered its forecast for fiscal year 2011 from 0.5% to negative 1.6%.

In May 2011, the Council retained its previous forecast. The Council again expressed its concern that the pace of Hawaii's economic growth was slowing and job growth was negligible.

For fiscal year 2011, actual general fund tax revenues decreased by 0.8%, as compared to the Council's projection of negative 1.6%.

In September 2011, the Council raised its growth rate for fiscal year 2012 from 11.0% to 14.5% and for fiscal year 2013 from 6.0% to 6.5% and lowered slightly the growth rates for fiscal years 2014 through 2018. The increases for fiscal years 2012 and 2013 primarily reflected the impact of new tax laws that went into effect in fiscal year 2012. Of the 14.5% growth forecasted for fiscal year 2012, 5.2% was due to economic growth, 4.3% was due to the effect of the delay in income tax refund payments from June 2010 to July 2010, and 5.0% was due to the changes in the tax laws. Without the expected increases in revenues from the new tax laws, the Council's projected growth would have been 9.5%, or 1.5% lower than the previous estimate, due to the Council's concern regarding uncertainties about the economy and the number of visitor arrivals.

The Council's next report is due January 10, 2012.

See "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.

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General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for the fiscal years ended June 30, 2010 (audited), and June 30, 2011 (preliminary, unaudited), and estimates for the fiscal years ending June 30, 2012 through June 30, 2015, inclusive. 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.

GENERAL FUND FINANCIAL PLAN 2010 - 2015[1]
(Millions of Dollars)

	Actual FY 10	Actual FY 11	Estimated FY 12	Estimated FY 13	Estimated FY 14	Estimated FY 15
REVENUES						
Executive Branch:						
Tax revenues[2, 3]	$4,363.4	$4,323.8	$4,956.6	$5,278.7	$5,437.1	$5,709.0
Nontax revenues[2, 3]	453.2	752.0	513.9	511.4	509.7	514.7
Judicial Branch Revenues[2, 3]	35.7	41.1	36.8	37.4	38.0	38.7
Other Revenue Sources / Adjustments[4]			10.8	7.3	7.2	7.2
TOTAL REVENUES	$4,852.4	$5,116.9	$5,518.0	$5,834.8	$5,992.1	$6,269.6
EXPENDITURES						
Executive Branch:						
Operating	$5,144.2	$4,943.3	$5,443.9	$5,556.2	$5,818.9	$6,041.8
Capital Investment						
Specific appropriations	64.0	95.2	10.0	5.0	5.0	5.0
Other[5]			43.5	138.3	65.6	81.0
Subtotal - Executive Branch	5,208.1	5,038.5	5,497.4	5,699.5	5,889.4	6,127.8
Legislative Branch	32.2	31.7	31.7	31.7	31.7	31.7
Judicial Branch	139.0	130.7	132.7	132.7	132.7	132.7
OHA and counties	2.5	2.5	2.4	2.4	2.4	2.4
Appropriation Lapses[6]	(544.0)	(234.7)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	$4,837.8	$4,968.7	$5,599.1	$5,801.3	$5,991.2	$6,229.6
REVENUES OVER EXPENDITURES	14.6	148.2	(81.1)	33.5	0.9	40.0
CARRY-OVER BALANCE (DEFICIT)						
Beginning Balance	(36.8)	(22.2)	126.0	44.9	78.4	79.3
Ending Balance	(22.2)	126.0	44.9	78.4	79.3	119.3

1 *Unaudited. The State's cash basis statements are not directly comparable with the State's audited financial statements, which are accrual basis.*
2 *Reflects actual fiscal year 2010 and 2011 revenue collections as reported by the Department of Accounting and General Services.*
3 *Reflects fiscal year 2012 –2015 Council on Revenues September 2011 projections.*
4 *Reflects other revenue sources including the transfer of $3.5 million in FY 2012 from the photo enforcement revolving fund that was authorized by Act 27, SLH 2011, $8.5 million annually from FY 2012 through FY 2015 for the federal interest subsidy on Build America Bonds and the diversion of $1.2 million to $1.3 million annually from general fund non-tax revenues to the shared services technology special fund.*
5 *FY 2012-2015 expenditure adjustments include increased contributions for retirement benefits ($75 million), furlough savings lag (-$14.8 million), restoration of cuts for welfare payments ($99.3 million), school bus transportation ($60 million) and deferred pension accumulation payment ($36.8 million), repayments of transfers from the Hurricane Relief Trust Fund ($111 million) and the Emergency and Budget Reserve Fund ($63.7 million) and savings for health premiums (-$49.4 million) and debt service (-$53.3 million) .*
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 2011- 2013 Executive Budget as authorized by Act 164, SLH 2011. Totals may not add due to rounding.
Sources: Department of Accounting and General Services; Department of Budget and Finance, October 2011.

The preceding General Fund financial plan is based on revised revenue projections reported by the Council on Revenues on September 8, 2011, that also incorporates revenue enhancements including an estimated $216 million in fiscal year 2012 and $231 million in fiscal year 2013 from, among other items, suspension of general excise tax exemptions, limitations on tax deductions, increased user fees, increased rental motor vehicle surcharges (fiscal year 2012 only), and temporary limits on transient accommodations tax revenue transfers to the counties and the Hawaii Tourism Authority. The financial plan also incorporates adjustments for a transfer from the photo enforcement revolving fund, federal interest subsidy on Build America Bonds, and diversion of general fund non-tax revenues to the shared services technology special fund.

With respect to expenditures, it reflects the fiscal biennium 2011-2013 Executive Budget, including State department/agency reductions of approximately $40 million per year, additional statewide reductions of approximately $50 million per year for program reprioritizations, approximately $88.2 million per year in labor cost reductions (approximately 5% of labor cost), and approximately $38.2 million in fiscal year 2012 and $19.5 million in fiscal year 2013 in Employer-Union Health Benefits Trust Fund reductions in the employer's 50% share of contributions. The financial plan also incorporates adjustments for, among other things, the restoration of cuts made by the legislature for welfare payments, school bus transportation and deferred pension accumulation payment, the repayment of transfers from the Hurricane Relief Trust Fund and the Emergency and Budget Reserve Fund (sooner than is required by current law), and savings resulting from revised estimates for health premiums and debt service.

In the General Fund financial plan, fiscal year revenues are recognized based on receipt while fiscal year expenditures are recognized when appropriations are expended in that year or encumbered. At the end of the fiscal year, encumbrances are not lapsed but are considered to be expenditures. Additionally, the Department of Education, by law, is allowed to retain 5% of its appropriations up to one year into the next fiscal biennium. For example, $34.2 million carried over from fiscal year 2011 to fiscal year 2012 by the Department of Education did not lapse and was considered to be expended in fiscal year 2011.

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General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2010, and represent almost 85% of the total General Fund revenues. Set forth below are the actual, cash basis General Fund tax revenues for the fiscal years ended June 30, 2010 and June 30, 2011 and estimated tax revenues for the fiscal years ending June 30, 2012, and June 30, 2013. The estimated tax revenues are based on the forecast for total General Fund revenues produced by the Council on Revenues' at its meeting of September 6, 2011, and the line item projections prepared by the Department of Taxation to be consistent with the Council's forecast.

GENERAL FUND TAX REVENUES*
(Thousands of Dollars)

	Actual 2009-2010	Actual 2010-2011	Estimated 2011-2012	Estimated 2012-2013
General Excise and Use	$2,316,434	$2,495,807	2,645,408	2,911,460
Income—Individual	1,527,619	1,246,672	1,542,019	1,623,631
Income—Corporation	59,186	34,573	72,318	73,568
Public Service Company	157,661	117,940	122,041	126,287
Insurance Premiums	104,721	140,456	144,772	151,766
Tobacco & Licenses	85,503	106,137	119,392	124,671
Liquor & Permits	44,074	48,054	48,605	49,174
Banks & Other Financial Corp.	18,666	31,677	26,590	29,739
Conveyance	18,216	21,527	19,093	16,256
Transient Accommodation Tax	31,698	59,757	117,093	133,533
Miscellaneous	781	19,812	79,634	19,057
TOTAL BEFORE ADJUSTMENTS	$4,364,559	$4,329,311	4,956,565	5,278,742
GROWTH RATE	3.9%	-0.8%	14.5%	6.5%

Sources: Council on Revenues' report dated September 8, 2011 and line item projections prepared by the Department of Taxation.

*Unaudited. The State's cash basis statements are not directly comparable with the State's audited financial statements, which are accrual basis.

NOTE: Totals for FY 2011 through 2013 include estate and transfer tax revenues, which were (in thousands of dollars) $6,899 in FY 2011 and are predicted to be $19,600 in each of FY 2012 and 2013.

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Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for fiscal years 2010 and 2011 reported by the State Director of Taxation. The collections from all sources for fiscal year 2011 amounted to $5.3 billion. This represents a 3.2% increase from the previous fiscal year.

	Fiscal Year Ended 6/30	
	2011	**2010**
State Tax Collections—Source of Revenue	(Thousands of Dollars)	
Banks/Financial corporations[1]	$33,677	$20,666
Conveyances[1]	47,906	40,634
Employment security contributions	190,511	82,017
Fuel	195,336	155,703
General excise, license and registration fees	479	449
General excise and use[2]	2,495,807	2,316,434
Honolulu County Surcharge[3]	199,010	175,061
Income—corporations:		
Declaration of estimated taxes	109,860	96,855
Payment with returns	13,982	18,911
Refunds[4]	(89,269)	(56,580)
Income—individuals[1]:		
Declaration of estimated taxes	301,476	257,329
Payment with returns	137,754	157,827
Withholding tax on wages	1,418,157	1,355,036
Refunds[4]	(610,234)	(242,083)
Inheritance and estate	6,899	0
Insurance fees	4,869	293
Insurance premiums	140,456	104,721
Liquor and permits	48,054	44,074
Motor Vehicle Tax/Fees, Etc. [5]	106,166	102,319
Public Service companies	117,940	157,661
Tobacco and licenses[1]	143,293	123,489
Transient Accommodations Fees/Time Share Occupation fees	9	9
Transient Accommodations Tax/Time Share Occupation Tax[1]	284,463	224,243
All other[6]	460	34
TOTAL	$5,297,062	$5,135,100

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

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

3 Taxpayers whose businesses are located outside of Oahu, but have business activities on Oahu may be subject to Honolulu County Surcharge tax.

4 $187.4 million in refunds ($186.1 million for individual income tax and $63 million for corporate income tax) were held up in the latter months of FY 2010 and paid out in July of 2010 (beginning of FY 2011).

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.

	Fiscal Year Ended 6/30	
	2011	2010
State Tax Collections—Distribution	(Thousands of Dollars)	
State General Fund	$4,329,311	$4,364,559
State Highway Fund	195,765	183,590
State Airport Fund	4,045	3,592
Boating Special Fund	1,666	1,507
Environmental Fund	1,403	1,421
Cigarette Stamp Administrative Fund	262	234
Cigarette Stamp Enforcement Fund	1,968	1,754
Compliance Resolution Fund	2,000	2,000
Election Campaign Fund	223	217
Employment Security Fund	190,511	82,017
Rental Housing Fund	11,990	10,190
Natural Area Reserve Fund	9,592	8,152
Convention Center Enterprise Fund	36,795	32,838
Land Conservation Fund	4,796	4,076
Tourism Special Fund	84,981	69,139
School Minor Repairs and Maintenance Fund	66	72
Public Libraries Fund	62	68
Domestic Violence/Child Abuse Neglect Funds	129	134
Cancer Research Fund	17,496	17,966
Trauma System Fund	6,544	6,754
Emergency Medical Service Fund	4,341	4,525
Community Health Centers Fund	6,544	6,754
Energy Security Fund	3,499	0
Energy Systems Development Fund	2,332	0
Agricultural Development & food Security Fund	3,499	0
Subtotal	4,919,822	4,801,559
Honolulu County Surcharge	199,010	175,061
Distributions to Counties*:		
Fuel tax	75,299	67,911
Transient Accommodation Tax	102,931	90,568
Counties Total	178,230	158,480
TOTAL	$5,297,062	$5,135,100

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

STATE EMPLOYEES' RETIREMENT SYSTEM

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

Employer Contribution Rate

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

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)*	Funding Period (Years)
2004	13.95	22.6
2005	13.95	25.7
2006	13.95	35.2
2007	13.95	25.5
2008	15.46	22.6
2009	15.47	28.2
2010	15.49	41.3

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

In 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. Act 163, SLH 2011, was enacted to raise the employer contribution rates over the next several years to bring the funding period in line with the 30-year statutory requirement.

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Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2009 and 2010 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2009 and 2010
(Includes all counties)

ASSETS	**2009**	**2010**
Total current assets	$11,400,116,874	$11,345,618,006
Present value of future employee contributions	1,454,290,782	1,435,479,895
Present value of future employer normal cost contributions	1,658,595,716	1,601,394,963
Unfunded actuarial accrued liability	6,236,315,442	7,138,050,585
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	$20,749,318,814	$21,520,543,449
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	8,584,029,950	9,259,425,898
Present value of future benefits to active employees and inactive members	12,165,288,864	12,261,117,551
TOTAL LIABILITIES	$20,749,318,814	$21,520,543,449

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2010, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately $7.138 billion. The System's funded ratios – assets divided by the actuarial accrued liability - decreased during fiscal year 2010 as shown below:

FUNDED RATIOS

June 30, 2009	**June 30, 2010**
64.6%	61.4%

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PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2010 AND INDEPENDENT AUDITORS' REPORT

The following information is excerpted from the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010 ("CAFR"). For ease of reference, Part II of Appendix B retains the CAFR's pagination as shown on the immediately following excerpt from the Table of Contents of the CAFR.

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

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HAWAII

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2010

BRUCE A. COPPA
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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PART I: INTRODUCTORY SECTION

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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2010

Bruce A. Coppa
Comptroller

Governor	**Neil Abercrombie**
Director of Finance	**Kalbert K. Young**
Director of Taxation	**Frederick D. Pablo**
Comptroller	**Bruce A. Coppa**

Notes:

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

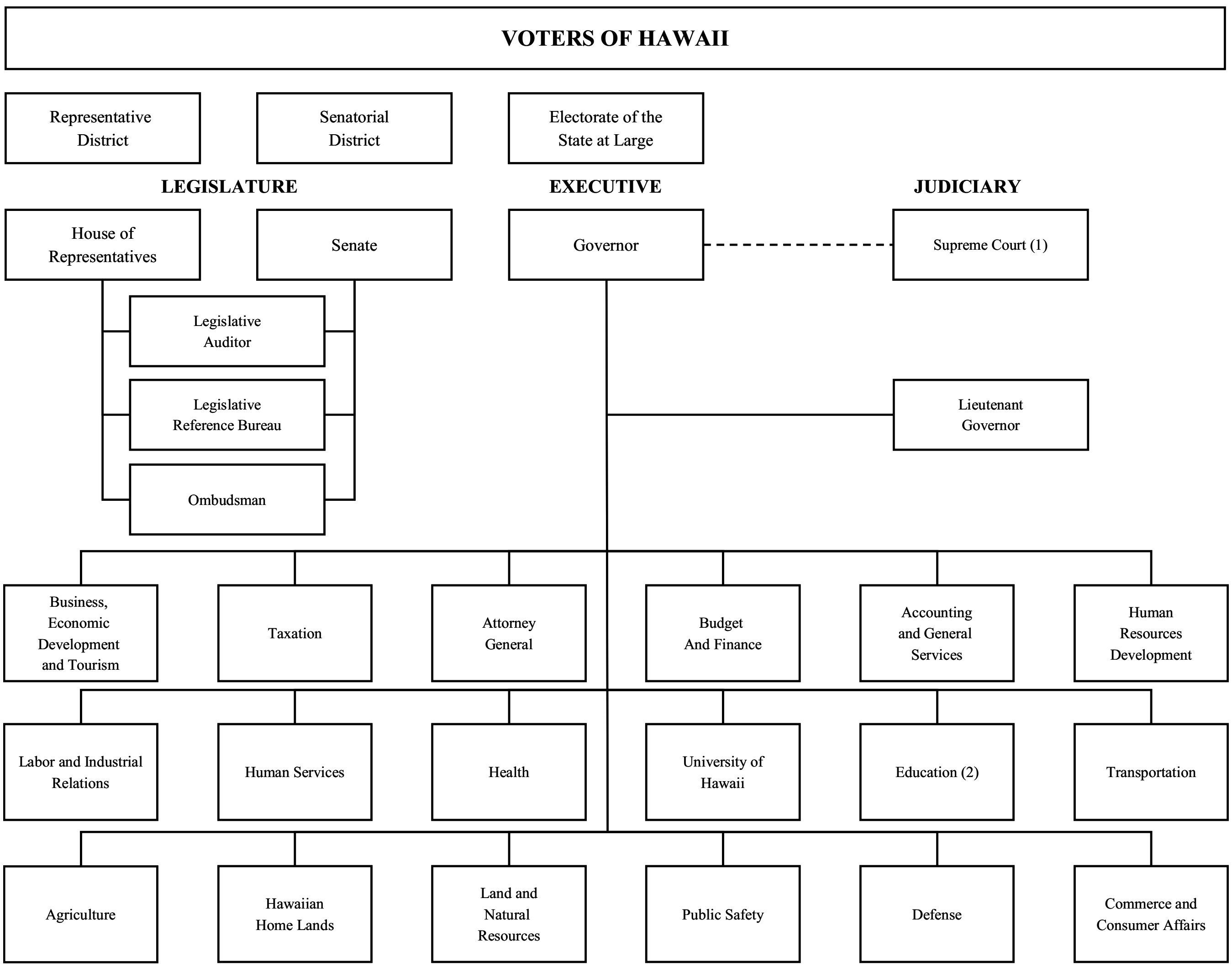
The Comptroller is also department head of the Department of Accounting and General Services.

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, 2010



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

(2) The Board of Education is elected.

NEIL ABERCROMBIE
GOVERNOR

BRUCE A. COPPA
Comptroller

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

October 12, 2011

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

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is my privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (State) for the fiscal year ended June 30, 2010. This report has been prepared by the State's Department of Accounting and General Services. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. I 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 two sections: introductory and financial. 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.

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

Hawaii's economy is expected to grow in 2011. Improvements in the labor market conditions and in the visitor industry should spread to other areas of the economy.

Labor

Hawaii's total civilian employment averaged 587,400 persons during 2010, a decrease of 1,250 persons or .2% from 2009. Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 6.6% for 2010, compared to the 2009 unemployment rate of 6.8%. Hawaii's 2010 total civilian wage and salary jobs declined to an annual average of 593,500, or .7%, from the previous year. The construction sector lost 2,600 jobs along with retail trade (950 jobs), financial activities (800 jobs), and manufacturing (750 jobs). These losses were offset by the information sector, which added 1,100 jobs, and the health care sector (900 jobs). Almost all the remaining sectors lost jobs in 2010. However, after ten consecutive quarterly job decreases from the 2008 second quarter to the 2010 third quarter, quarterly jobs increased in the 2010 fourth quarter.

Taxes

Tax revenues distributed to the State's General Fund increased $295.9 million, or 7.4%, during 2010 compared to 2009. Among its components, individual net income tax collections increased $107.5 million or 8.5%, general excise and use tax (GET) collections increased $83.7 million, or 3.6%, and transient accommodations tax (TAT) collections were up $31.3 million, or 14.7%.

Personal Income

Total nominal personal income, not adjusted for inflation, increased $1.2 billion, or 2.2% in 2010 compared to 2009. Among its components, the fastest growth was seen in personal current transfer receipts of 7.6%, proprietors' income of 3.4% and supplements to wages and salaries 2.8%. Contributions for government social insurance, which are subtracted from personal income, increased by 2.2%.

Prices

Honolulu's consumer price index (CPI) increased 2.1% for 2010, higher than a 1.6% increase for the United States (U.S.). The Honolulu increase was primarily due to increases in transportation (7.0%), other goods and services (5.1%), education and communication (4.6%), and apparel (3.2%). Medical care decreased slightly by .4%.

Recent Developments in Hawaii's Major Industries

Visitor Industry

The number of visitors arriving by air increased 8.8% in 2010 compared to 2009. Domestic arrivals (visitors on flights originating inside of the U.S.) increased 7.5% while international arrivals increased 12.1%. Similarly, total visitor days (visitor arrivals multiplied by average length of stay) were up 8.9% in 2010 compared to 2009 and total visitor spending increased 16.2%. Statewide hotel occupancy rate averaged 70.7% in 2010, 5.9% higher than the average rate in 2009.

Construction

Hawaii's construction industry was one of the major contributors to job growth during the 2002-2007 years. Since 2008, construction jobs have decreased, and in 2010, this industry had the highest rate of job loss among major industries. The total value of new private building authorizations decreased $18.6 million or .9% from 2009. Government contracts awarded increased $278.9 million, a 35.8% increase from 2009.

Outlook for Hawaii's Economy

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy is continued positive growth, particularly in tourism. Modest increases are also expected for both real (inflation-adjusted) Personal Income growth and real state Gross Domestic Product (GDP) in 2011.

The future condition of Hawaii's economy depends on the state of the mainland U.S. and Japanese economies. The May 2011 Blue Chip Economic Consensus Forecasts expected real GDP growth in 2011 to increase 2.7% for the U.S. and .4% for Japan due to the March 2011 Tohoku earthquake and tsunami. In 2012 GDP growth is expected to be at 3.2% for the U.S. and 2.7% for Japan.

DBEDT expects that total visitor arrivals to Hawaii, visitor days and visitor expenditures will increase in 2011. In 2011, visitor arrivals, visitor days, and visitor expenditures are predicted to increase 3.8%, 5.1%, and 10.8%, respectively.

DBEDT projects total wage and salary jobs to increase 1.8% in 2011. Real Personal Income is expected to increase 1.0% in 2011 with real GDP projected to increase 1.6% in 2011.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.5% in 2011. The State GDP deflator is expected to grow 1.6% in 2011.

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. I 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 2009, 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. Open encumbrances are reported as reservations of fund balances at June 30, 2010. 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. The 12 bargaining units have contractual agreements in force as of the date of this letter.

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, 2010. 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, 2009 did not receive the Certificate of Achievement because of its late issuance. I 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

I extend my 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 I believe will serve as a helpful source of information for anyone having an interest in the financial operations of the State.

Respectfully submitted,

BRUCE A. COPPA
Comptroller, State of Hawaii

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PART II: FINANCIAL SECTION

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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, 2010, which collectively comprise the State of Hawaii's basic financial statements (pages 32 – 112) 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 an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, 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	98%	62%
Aggregate Discretely Presented Component Units	100%	100%
Fiduciary Funds	- %	5%

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 above present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2010, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (pages 13-30) and Schedule of Revenue and Expenditures – Budget and Actual and Schedules of Funding Progress (pages 115-119 and 126-132) are not a required Part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the State of Hawaii's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the State of Hawaii's basic financial statements. The introductory section (pages 1-7), and the combining and individual fund statements and schedules (pages 122-125 and 133-139), are presented for purposes of additional analysis and are not a required Part of the basic financial statements. This supplementary information is the responsibility of the State of Hawaii's management. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Deloitte + Touche LLP

October 12, 2011

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, 2010. 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, 2010 by $5.4 billion (net assets). Unrestricted net assets which may be used to meet the State's ongoing obligations to citizens and creditors was a negative $813.6 million, a decrease of $939.7 million from the previous year. Net assets of governmental activities and business-type activities decreased by $1.0 billion and $21.5 million, respectively. The combined decrease to the State was $1.0 billion from the prior fiscal year.

Fund Highlights

At June 30, 2010, the State's Governmental Funds reported combined ending fund balances of $950.7 million, a decrease of $271.5 million from the prior fiscal year. Of this amount, $32.9 million, or 3.5%, of total fund balances was in the General Fund, and the remaining $917.8 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net assets at June 30, 2010, of $2.9 billion, a decrease of $21.5 million during the fiscal year.

Restatements

The accompanying Proprietary Funds, Component Units, and Government Wide financial statements reflected a restatement of June 30, 2009 net assets (See Note 15 to the basic financial statements). The 2009 assets and liabilities used for comparative purposes within this section have not been restated.

Long-Term Liabilities

The State's long-term liabilities increased during the current fiscal year to $8.7 billion, an increase of $1.4 billion. During fiscal 2010, the State issued $532 million in general obligation bonds for the purpose of financing the Hawaiian Home Lands Trust settlement and public improvement projects. The State issued $515.3 million in general obligation refunding bonds to advance refund $510.5 million of previously issued outstanding general obligation bonds. In accordance with GASB 45, the State increased the liability for *Postemployment Benefits Other Than Pension,* to $1.4 billion, an increase of $640.9 million for the fiscal year ended June 30, 2010.

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 – 38 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 45 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 – 112 of this report.

Other Supplementary Information

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

Government-Wide Financial Analysis

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

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $5.4 billion as of June 30, 2010, and net assets decreased $1.0 billion, or 16.0%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by $1.0 billion, or 28.9%, and business-type activities had a decrease of $21.5 million, or .7%. The following table was derived from the Government-Wide statement of net assets.

Summary Schedule of Net Assets

June 30, 2010 and 2009
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	$ 2,676,980	$ 2,802,988	$ 2,042,890	$ 1,699,447	$ 4,719,870	$ 4,502,435
Capital assets, net	8,740,404	8,570,100	2,380,609	2,296,474	11,121,013	10,866,574
Total assets	11,417,384	11,373,088	4,423,499	3,995,921	15,840,883	15,369,009
Liabilities:						
Long-term liabilities	7,331,670	6,351,395	1,373,070	929,645	8,704,740	7,281,040
Other liabilities	1,618,586	1,554,061	164,744	159,065	1,783,330	1,713,126
Total liabilities	8,950,256	7,905,456	1,537,814	1,088,710	10,488,070	8,994,166
Net assets:						
Invested in capital assets, net of related debt	3,118,606	3,298,144	1,469,676	1,527,018	4,588,282	4,825,162
Restricted	655,238	641,031	922,846	782,569	1,578,084	1,423,600
Unrestricted	(1,306,716)	(471,543)	493,163	597,624	(813,553)	126,081
Total net assets	$ 2,467,128	$ 3,467,632	$ 2,885,685	$ 2,907,211	$ 5,352,813	$ 6,374,843

Analysis of Net Assets

By far the largest portion of the State's net assets ($4.6 billion or 85.7%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets ($1.6 billion or 29.5%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets (negative $813.6 million or negative 15.2%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2010, 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 Capital Projects Fund which reflected a negative unreserved-undesignated fund balance of $1.7 billion.

Changes in Net Assets

The State's net assets decreased by $1.0 billion, or 16.0%, during the fiscal year ended June 30, 2010. Approximately 48.6% of the State's total revenues came from taxes, while 31.6% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 17.8% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, and unemployment compensation.

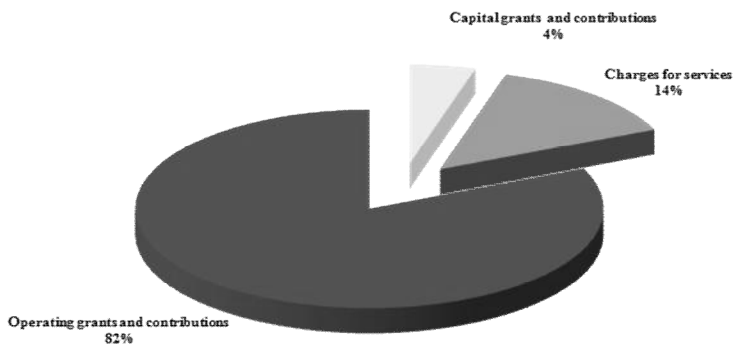
The following financial information was derived from the Government-Wide statement of activities and reflects how the State's net assets changed during the fiscal year (the 2009 line item amounts have not been adjusted for restatements discussed in Note 15).

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009
(Amounts in thousands)

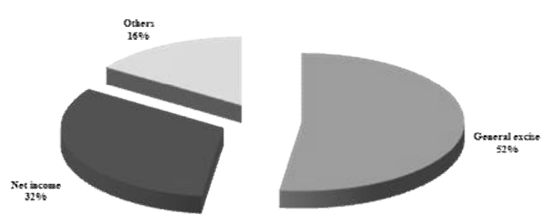
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	$ 441,471	$ 425,345	$ 1,155,942	$ 545,132	$ 1,597,413	$ 970,477
Operating grants and contributions	2,598,141	2,260,551	-	-	2,598,141	2,260,551
Capital grants and contributions	144,445	145,771	98,099	103,195	242,544	248,966
General revenues:						
Taxes	4,368,686	4,382,817	-	-	4,368,686	4,382,817
Interest and investment income (loss)	124,518	(42,051)	68,950	4,639	193,468	(37,412)
Other	(3,036)	305	-	-	(3,036)	305
Total revenues	7,674,225	7,172,738	1,322,991	652,966	8,997,216	7,825,704
Expenses:						
General government	421,327	564,356	-	-	421,327	564,356
Public safety	538,110	464,897	-	-	538,110	464,897
Highways	466,322	487,391	-	-	466,322	487,391
Conservation of natural resources	81,561	119,705	-	-	81,561	119,705
Health	858,476	843,826	-	-	858,476	843,826
Welfare	2,348,190	2,140,202	-	-	2,348,190	2,140,202
Lower education	2,616,768	2,656,592	-	-	2,616,768	2,656,592
Higher education	700,335	878,126	-	-	700,335	878,126
Other education	14,034	29,935	-	-	14,034	29,935
Culture and recreation	108,247	106,583	-	-	108,247	106,583
Urban redevelopment and housing	101,505	145,710	-	-	101,505	145,710
Economic development and assistance	209,611	158,808	-	-	209,611	158,808
Interest expense	210,243	127,576	-	-	210,243	127,576
Airports	-	-	336,127	347,089	336,127	347,089
Harbors	-	-	68,291	124,611	68,291	124,611
Unemployment compensation	-	-	686,141	437,553	686,141	437,553
Nonmajor proprietary fund	-	-	256,205	38,672	256,205	38,672
Total expenses	8,674,729	8,723,707	1,346,764	947,925	10,021,493	9,671,632
Change in net assets	(1,000,504)	(1,550,969)	(23,773)	(294,959)	(1,024,277)	(1,845,928)
Net assets – beginning of year – as previously reported	3,467,632	5,018,601	2,907,211	3,201,813	6,374,843	8,220,414
Adjustments	-	-	2,247	357	2,247	357
Net assets – beginning of year – as restated	3,467,632	5,018,601	2,909,458	3,202,170	6,377,090	8,220,771
Net assets – end of year	$ 2,467,128	$ 3,467,632	$ 2,885,685	$ 2,907,211	$ 5,352,813	$ 6,374,843

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

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2010



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2010



Analysis of Changes in Net Assets

The State's net assets decreased by $1.0 billion during the current fiscal year. This is explained in the governmental and business-type activities discussion below, and is primarily due to decrease in net assets of governmental activities of $1.0 billion with a decrease in net assets of Unemployment Compensation Fund of $193.4 million, offset by increases in net assets of Airports, Harbors and Nonmajor Proprietary Funds of $75.8 million, $18.8 million and $77.4 million, respectively.

Governmental Activities

Governmental activities decreased the State's net assets by $1.0 billion. The elements of this decrease are reflected below:

	Governmental Activities (Amounts in thousands)	
	2010	**2009**
General revenues:		
Taxes	$ 4,368,686	$ 4,382,817
Interest and investment (loss) income and other	121,482	(41,746)
Total general revenues	4,490,168	4,341,071
Expenses, net of program revenues:		
General government	(140,251)	140,192
Public safety	502,629	429,155
Highways	250,122	285,450
Conservation of natural resources	26,944	63,253
Health	559,827	566,068
Welfare	693,873	674,367
Lower education	2,331,537	2,381,591
Higher education	700,335	878,126
Other education	12,829	28,536
Culture and recreation	106,781	105,031
Urban redevelopment and housing	54,066	77,192
Economic development and assistance	181,737	135,503
Interest expense	210,243	127,576
Total governmental activities expenses, net of program revenues	5,490,672	5,892,040
Decrease in governmental activities net assets	$ (1,000,504)	$ (1,550,969)

Tax revenues decreased by $14.1 million, or .3%, from the previous fiscal year. The decrease was primarily due to a decrease in general excise taxes of $131.4 million, offset by increases in individual and corporate incomes taxes of $42.4 million, in public service company taxes of $31.6 million and in tobacco and liquor taxes of $14.2 million.

Interest and investment income increased by $163.2 million from the previous year. This increase is primarily attributed to the increase in the fair market value of investments in the State's investment pool of $103.2 million in fiscal 2010 compared to a decrease in the fair market value of $83.0 million in fiscal 2009.

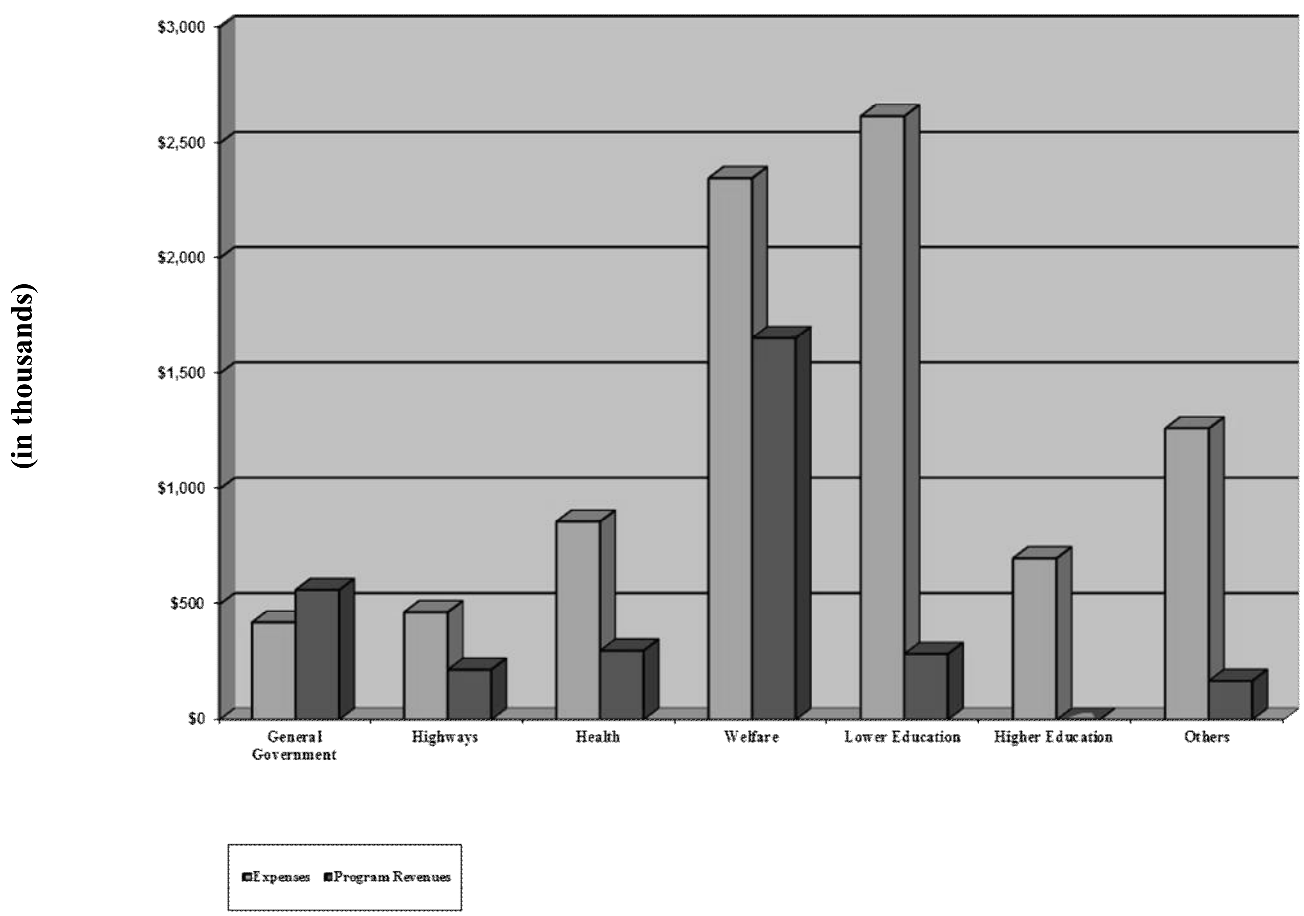
General government net expenses decreased $280.4 million, or 200.0%, from the previous fiscal year due mainly to spending restrictions and debt restructuring and payroll cost savings measures that included furloughs, pay reductions and reductions in force. The decrease was also due to an increase of $112.2 million operational grants revenues from the previous fiscal year which included $49.3 million in federal stimulus fund received for education programs.

Although lower education net expenses decreased only $50.1 million or 2.1% from the previous fiscal year, General Fund expenses decreased $386.4 million, due primarily to employee furloughs and spending restrictions in instructional services and school and student support. Offsetting this decrease were increases in expenses in non-general funds of $256.7 million, primarily due to an increase in federal funds received in fiscal 2010 and additional school facilities repair expenses.

Higher education net expenses decreased by $177.8 million, or 20.3%, from the previous fiscal year due mainly to employee furloughs and spending restrictions at all University of Hawaii campuses.

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:

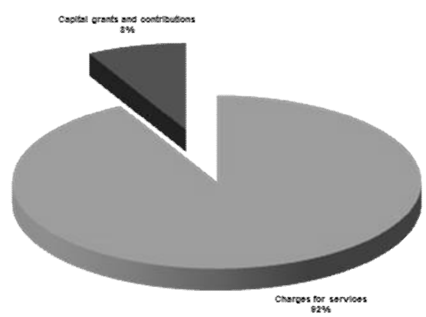
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2010



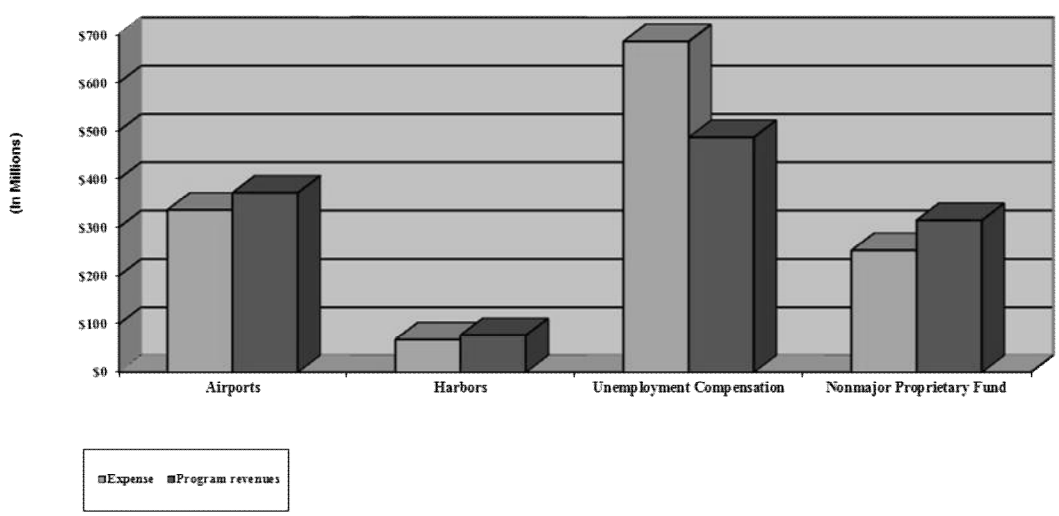
Business-Type Activities

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, 2010



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2010



Business-type activities decreased the State's net assets by $21.5 million in fiscal 2010, compared to a decrease of $295.0 million in fiscal 2009. Key elements of this increase are as follows:

- Airport's net assets increased $75.8 million compared to a decrease of $11.2 million in the prior fiscal year. Charges for current services increased by $34.1 million and interest income increased by $47.6 million, primarily due to an increase in fair value of investments in the State's Investment Pool of $31.0 million. Expenses decreased by $11.0 million.

- Harbor's net assets increased $18.8 million in fiscal 2010 compared to a decrease of $26.4 million in fiscal 2009. Expenses decreased by $56.3 million primarily due to an extraordinary loss on impairment of capital assets of $41.4 million in FY09. Interest income increased by $11.3 million, due to an increase in fair value of investments in State's Investment Pool of $9.1 million. Capital contributions and grants decreased by $18.8 million in the current year.

- The Unemployment Compensation Fund's net assets decreased $193.4 million compared to a decrease of $247.9 million in the prior fiscal year. The change was primarily due to an increase in unemployment benefits paid of $248.6 million offset by an increase in unemployment tax revenues of $316.5 million.

- Nonmajor Proprietary Fund's net assets increased $77.4 million in fiscal 2010 compared to a decrease of $9.1 million in fiscal 2009. Subsequent to the issuance of the EUTF 2009 financial statements, management reclassified all activity related to capital assets, operating revenues and expenses and related assets and liabilities previously reported in the agency fund to the Proprietary Fund, see Note 15 to the basic financial statements. The aggregate Nonmajor Proprietary Fund revenues increased by $283.7 million, expenses increased by $217.5 million and interest income increased $18.8 million. Capital contributions for Water Pollution Control Revolving Fund and Drinking Water Treatment Revolving Fund increased by $4.7 million and $17.5 million, respectively.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2010 and 2009 are as follows:

	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Airports	$ 324,577	$ 290,464	$ 47,863	$ 56,307	$ 372,440	$ 346,771	$ 336,127	$ 347,089	$ 36,313	$ (318)
Harbors	73,340	74,612	3,865	22,714	77,205	97,326	68,291	124,611	8,914	(27,285)
Unemployment compensation	486,476	169,976	-	-	486,476	169,976	686,141	437,553	(199,665)	(267,577)
Nonmajor proprietary funds	271,549	10,080	46,371	24,174	317,920	34,254	256,205	38,672	61,715	(4,418)
Total	$ 1,155,942	$ 545,132	$ 98,099	$ 103,195	$ 1,254,041	$ 648,327	$ 1,346,764	$ 947,925	$ (92,723)	$ (299,598)

Financial Analysis of the State's Individual Funds

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

Governmental Funds

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

At of the end of the current fiscal year, the State's Governmental Funds reported combined ending fund balances of $950.7 billion, a decrease of $271.5 million from the prior fiscal year. Unreserved fund balance, normally a positive amount, was a negative $1.6 billion at fiscal year end. This deficit was mainly the result of negative unreserved fund balances of $1.7 billion in the Capital Projects Fund and $210.6 million in the General Fund which were attributed to outstanding encumbrances exceeding the cash available in the fund. Encumbrances can be incurred as long as there is sufficient appropriation or authorization balances. The unreserved fund balance excluding the Capital Projects Fund and General Fund was $293.6 million, which represents the amount available for spending at the State's discretion in the coming fiscal year. The remainder of the fund balance is reserved to indicate that it is not available for spending because it has been already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use ($2.2 billion), (2) for notes and loans receivable, advances, and investments ($78.4 million), or (3) for federal aid highway projects encumbrances ($233.6 million).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was a negative $210.6 million, a decrease of $123.0 million from the prior fiscal year.

The fund balance of the State's General Fund decreased by $152.1 million during the current fiscal year, which was primarily due to an increase in net transfers out of $119.6 million. This increase is primarily due a reduction in the amount of excess and unrequired cash balances that was transferred into the general fund from special revenue funds compared to the prior fiscal year. The fund balance of the State's Capital Projects fund decreased by $147.3 million during the current fiscal year. The State issued $94.0 million less general obligation bonds than in fiscal year 2009, which was the primary reason for the decrease. The fund balance of the Med-Quest Special Fund and other Nonmajor Governmental Funds increased $16.9 million and $11.0 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 $75.8 million, Harbors had an increase in net assets of $18.8 million, the Unemployment Compensation Fund had a decrease in net assets of $193.4 million, and the Nonmajor Proprietary Funds had an increase in net assets of $77.4 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 $215.5 million, or 4.7%, more than the final budget. The increase was primarily attributed to higher corporate and individual net income taxes of $271.9 million, public service companies taxes of $33.1 million, and revenues from private sources services of $13.6 million, offset by lower general excise taxes of $34.4 million, tobacco taxes of $8.8 million, transient accommodation tax of $6.5 million, interest and investment income of $20.7 million, and charges for current services of $29.7 million.

The difference between the final budget and actual expenditures on a budgetary basis was $503.2 million. This large positive variance was the result of employee furloughs, spending restrictions on executive branch departments and debt restructuring. The positive variance in general government is mostly due to savings from debt service restructuring of $101.3 million and $75.2 million for health premium and retirement benefits not incurred because of the employee furloughs. The positive variance in general government was also due to $15.6 million of appropriations made to the State Legislature that was carried over to the next fiscal year. Positive variances in public safety and health resulted from employee furloughs and spending restrictions, in the correctional facilities and health programs. Restriction of various welfare program expenditures, including $12.3 million for the Federal disproportionate share hospital allowance, and employee furloughs contributed to the positive welfare variance. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $20.2 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry over up to 5% of its unencumbered appropriations. Adding to the positive variance was $127.7 million realized from employee furloughs. The positive variance for higher education resulted primarily from employee furloughs.

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounted to $11.1 billion (net of accumulated depreciation of $8.4 billion), an increase of $254.4 million from fiscal 2009. The increase is primarily due to $684.7 million of additions to construction in progress in fiscal 2010. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2010, included the following:

- $133.8 million for various projects including concourse, support and maintenance facilities at the Honolulu International Airport.
- $86.3 million for various capital improvement projects at airports, statewide.
- $83.8 million for various highway projects throughout the State.
- $39.7 million for additions and renovations for the Campus Center Complex at the University of Hawaii.
- $34.8 million for the Cancer Research Center at the University of Hawaii.
- $260.2 million for various construction, maintenance and renovation projects at all University of Hawaii campuses.
- $142.8 million for various capital improvement projects and for repairs and maintenance of public school facilities throughout the State.
- $43.2 million for various construction, maintenance and renovation projects at state community hospitals.
- $25.2 million for various renovation and improvement projects at public housing facilities.

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

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $6.9 billion. Of this amount, $5.2 billion comprises debt backed by the full faith and credit of the State and $1.7 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, 2010 and 2009
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
General obligation bonds	$ 5,157,198	$ 4,779,666	$ 37,362	$ 38,329	$ 5,194,560	$ 4,817,995
Revenue bonds	400,215	420,605	1,285,792	861,423	1,686,007	1,282,028
Total	$ 5,557,413	$ 5,200,271	$ 1,323,154	$ 899,752	$ 6,880,567	$ 6,100,023

The State's total long-term debt increased by $780.5 million, or 12.8%, during the current fiscal year. The key factor for this increase was the issuance of $532 million of general obligation bonds for financing the Hawaiian Home Lands Trust settlement, public improvement projects (see Note 4 to the basic financial statements).

As of June 30, 2010, 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, 2010 was $320.8 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, 2009 for the Employer-Union Health Benefits Trust Fund (EUTF), Hawaii Voluntary Employee's Beneficiary Association Trust (VEBA), and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $14.0 billion. The State's combined annual OPEB cost for fiscal 2010 was $1.0 billion and its OPEB contributions were $242.2 million, resulting in an increase in the net OPEB obligation of $769.3 million. The total net OPEB obligation balance at fiscal year end increased to $1.7 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 June 2011 was 6.0%. One year ago, the State's seasonally adjusted unemployment rate stood at 6.3% while the seasonally adjusted national unemployment rate was 9.2%.

The Council of Revenues in September 2010 estimated the State's General Fund tax revenue growth rate for fiscal 2011 and 2012 to be 2.0% and 10.0% respectively. A special meeting was held on March 29, 2011 to determine the revenue impact of Japan's seismic event, reduced federal "earmarked" expenditure and the global petroleum movements. The Council's revised forecast for fiscal 2011 was -1.6% in fiscal 2011's, and 11.0% in fiscal 2012.

Cumulative tax collections for fiscal 2011 was $5.3 billion or $161.4 million more than fiscal 2010. This increase was net of an estimated $184 million of individual income tax refunds that were delayed and paid in fiscal 2011. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 7.7%.

Because of a lower estimated revenue growth rate in fiscal year 2011, cost saving measures such as employee furloughs and pay reductions implemented in the prior year remained in effect. The Governor also implemented spending restrictions on general funded programs in the Executive Branch and released funding on a quarter to quarter basis to enable additional spending restrictions to be implemented should revenues decline during the fiscal year. Other expenditure controls implemented included requiring Governor's approval to fill vacant positions and for equipment purchases over $10,000.

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, 2010
(Amounts in thousands)

	Primary Government			
ASSETS	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
CASH AND CASH EQUIVALENTS	$ 814,062	$ 686,824	$ 1,500,886	$ 378,526
RECEIVABLES:				
Taxes	123,459	64,573	188,032	-
Accounts and accrued interest — net	7,161	31,118	38,279	180,665
Notes, loans, mortgages, and contributions — net	79,745	-	79,745	24,665
Federal government	226,880	14,828	241,708	5,475
Premium	-	23,057	23,057	-
Other — net	53,099	16,263	69,362	23,424
Total receivables	490,344	149,839	640,183	234,229
DUE FROM COMPONENT UNITS	355,407	-	355,407	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	453,710
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	23,237
Materials and supplies	-	473	473	30,278
Total inventories	-	473	473	53,515
RESTRICTED ASSETS	-	804,804	804,804	369,607
INVESTMENTS	909,154	-	909,154	961,400
OTHER ASSETS:				
Prepaid expenses	4,703	204	4,907	11,503
Bond issue and deferred costs — net	103,310	7,611	110,921	1,756
Note receivable	-	392,445	392,445	318,938
Other	-	690	690	32,518
Total other assets	108,013	400,950	508,963	364,715
CAPITAL ASSETS:				
Land and land improvements	2,128,686	585,015	2,713,701	448,663
Infrastructure	8,654,609	-	8,654,609	138,374
Construction in progress	689,729	252,298	942,027	234,269
Buildings, improvements, and equipment	3,851,817	3,353,395	7,205,212	3,400,556
Accumulated depreciation	(6,584,437)	(1,810,099)	(8,394,536)	(1,753,189)
Total capital assets — net	8,740,404	2,380,609	11,121,013	2,468,673
TOTAL	$ 11,417,384	$ 4,423,499	$ 15,840,883	$ 5,284,375

(Continued)

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
LIABILITIES:				
Vouchers and contracts payable	$ 442,384	$ 44,340	$ 486,724	$ 139,940
Other accrued liabilities	374,182	101,242	475,424	152,526
Prepaid airport use charge fund	-	2,553	2,553	-
Due to Component Units	453,710	-	453,710	-
Due to Primary Government	-	-	-	355,407
Due to federal government	-	-	-	16
Deferred revenue	-	6,328	6,328	-
Estimated future costs of land sold	-	-	-	35,482
Unamortized bond premium	264,131	-	264,131	-
Premiums payable	-	10,281	10,281	-
Other	84,179	-	84,179	30,227
Long-term liabilities:				
Due within one year:				
Payable from restricted assets —				
Revenue bonds payable — net	-	36,156	36,156	-
General obligation bonds payable	169,654	1,141	170,795	-
Notes, mortgages, and installment contracts payable	-	-	-	13,948
Accrued vacation and retirement benefits payable	64,930	3,108	68,038	40,008
Revenue bonds payable — net	21,590	-	21,590	14,782
Reserve for losses and loss adjustment costs	37,544	1,176	38,720	7,272
Capital lease obligations	1,495	-	1,495	9,509
Deferred commitment fees	-	-	-	249
Due in more than one year:				
General obligation bonds payable	4,987,544	36,221	5,023,765	-
Notes, mortgages, and installment contracts payable	-	-	-	32,242
Accrued vacation and retirement benefits payable	147,173	8,107	155,280	64,373
Revenue bonds payable — net	378,625	1,249,636	1,628,261	805,159
Reserve for losses and loss adjustment costs	114,168	3,495	117,663	20,205
Capital lease obligations	62,890	-	62,890	24,871
Premium bonds payable	-	-	-	1,630
Other postemployment benefit liability	1,345,675	25,274	1,370,949	312,235
Other	382	8,756	9,138	70,011
TOTAL LIABILITIES	8,950,256	1,537,814	10,488,070	2,130,092
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	3,118,606	1,469,676	4,588,282	1,782,766
RESTRICTED FOR:				
Health and welfare	223,856	-	223,856	-
Natural resources	98,558	-	98,558	-
Hawaiian programs	163,889	-	163,889	-
Budget stabilization	62,493	-	62,493	-
Other purposes	106,324	-	106,324	-
Bond requirements and other	118	922,846	922,964	1,065,407
UNRESTRICTED	(1,306,716)	493,163	(813,553)	306,110
TOTAL NET ASSETS	$ 2,467,128	$ 2,885,685	$ 5,352,813	$ 3,154,283

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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	$ 421,327	$ 231,629	$ 329,949	$ -	$ 140,251	$ -	$ 140,251	
Public safety	538,110	30,656	4,825	-	(502,629)	-	(502,629)	
Highways	466,322	5,942	65,813	144,445	(250,122)	-	(250,122)	
Conservation of natural resources	81,561	28,654	25,963	-	(26,944)	-	(26,944)	
Health	858,476	98,547	200,102	-	(559,827)	-	(559,827)	
Welfare	2,348,190	746	1,653,571	-	(693,873)	-	(693,873)	
Lower education	2,616,768	35,091	250,140	-	(2,331,537)	-	(2,331,537)	
Higher education	700,335	-	-	-	(700,335)	-	(700,335)	
Other education	14,034	847	358	-	(12,829)	-	(12,829)	
Culture and recreation	108,247	-	1,466	-	(106,781)	-	(106,781)	
Urban redevelopment and housing	101,505	3,863	43,576	-	(54,066)	-	(54,066)	
Economic development and assistance	209,611	5,496	22,378	-	(181,737)	-	(181,737)	
Interest expense	210,243	-	-	-	(210,243)	-	(210,243)	
Total governmental activities	8,674,729	441,471	2,598,141	144,445	(5,490,672)		(5,490,672)	
Business-Type Activities:								
Airports	336,127	324,577	-	47,863	-	36,313	36,313	
Harbors	68,291	73,340	-	3,865	-	8,914	8,914	
Unemployment compensation	686,141	486,476	-	-	-	(199,665)	(199,665)	
Nonmajor proprietary funds	256,205	271,549	-	46,371	-	61,715	61,715	
Total business-type activities	1,346,764	1,155,942		98,099		(92,723)	(92,723)	
TOTAL PRIMARY GOVERNMENT	10,021,493	1,597,413	2,598,141	242,544	(5,490,672)	(92,723)	(5,583,395)	
COMPONENT UNITS:								
University of Hawaii	1,443,894	339,840	474,347	-				(629,707)
Hawaii Housing Finance and Development Corporation	60,326	38,665	32,327	-				10,666
Hawaii Public Housing Authority	141,260	21,990	70,143	17,496				(31,631)
Hawaii Health Systems Corporation	572,310	471,177	3,228	37,945				(59,960)
Hawaii Tourism Authority	157,448	8,650	-	-				(148,798)
Hawaii Community Development Authority	7,920	4,566	-	-				(3,354)
Hawaii Hurricane Relief Fund	4	-	-	-				(4)
Total component units	2,383,162	884,888	580,045	55,441				(862,788)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,279,310	-	2,279,310	-
Net income tax — corporations and individuals					1,408,965	-	1,408,965	-
Public service companies tax					157,661	-	157,661	-
Transient accommodations tax					32,635	-	32,635	-
Tobacco and liquor taxes					149,596	-	149,596	-
Liquid fuel tax					82,780	-	82,780	-
Tax on premiums of insurance companies					105,848	-	105,848	-
Vehicle weight and registration tax					58,659	-	58,659	-
Rental motor/tour vehicle surcharge tax					40,401	-	40,401	-
Franchise tax					20,666	-	20,666	-
Other tax					32,165	-	32,165	-
Interest and investment income					124,518	68,950	193,468	48,518
Payments from the State — net					-	-	-	993,752
Other income (expense)					(3,036)	-	(3,036)	12,268
Total general revenues					4,490,168	68,950	4,559,118	1,054,538
CHANGE IN NET ASSETS					(1,000,504)	(23,773)	(1,024,277)	191,750
NET ASSETS — Beginning of year — as previously reported					3,467,632	2,907,211	6,374,843	2,962,030
ADJUSTMENTS (Note 15)					-	2,247	2,247	503
NET ASSETS — Beginning of year — as restated					3,467,632	2,909,458	6,377,090	2,962,533
NET ASSETS — End of year					$ 2,467,128	$ 2,885,685	$ 5,352,813	$ 3,154,283

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 134,232	$ 88,245	$ 24,598	$ 566,987	$ 814,062
RECEIVABLES:					
Taxes	123,459	-	-	-	123,459
Accrued interest	-	-	-	7,161	7,161
Notes and loans — net	3,281	-	-	76,464	79,745
Federal government	-	-	161,920	64,960	226,880
Other	2,274	-	-	26,417	28,691
DUE FROM OTHER FUNDS	149,467	-	12,600	118	162,185
DUE FROM COMPONENT UNITS	34,916	-	-	-	34,916
INVESTMENTS	80,448	379,678	-	449,028	909,154
TOTAL	$ 528,077	$ 467,923	$ 199,118	$ 1,191,135	$ 2,386,253
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 112,010	$ 56,553	$ 176,102	$ 97,719	$ 442,384
Other accrued liabilities	342,001	3,216	-	28,965	374,182
Due to other funds	12,718	89,900	-	59,567	162,185
Due to Component Units	10,182	428,034	-	-	438,216
Deferred revenue	18,232	-	-	-	18,232
Payable from restricted assets — matured bonds and interest payable	-	-	-	382	382
Total liabilities	495,143	577,703	176,102	186,633	1,435,581
FUND BALANCES:					
Reserved for:					
Continuing appropriations	240,204	1,308,454	79,052	579,758	2,207,468
Receivables and advances	3,281	-	-	75,083	78,364
Federal aid highway projects encumbrances	-	233,621	-	-	233,621
Unreserved for major funds:					
Designated for future expenditures	-	-	-	-	-
Undesignated	(210,551)	(1,651,855)	-	-	(1,862,406)
Unreserved for nonmajor Special Revenue Funds:					
Designated for future expenditures	-	-	-	103,024	103,024
Undesignated	-	-	(56,036)	246,637	190,601
Total fund balances	32,934	(109,780)	23,016	1,004,502	950,672
TOTAL	$ 528,077	$ 467,923	$ 199,118	$ 1,191,135	$ 2,386,253

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, 2010
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 950,672
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	2,128,686
Infrastructure	8,654,609
Construction in progress	689,729
Buildings, improvements, and equipment	3,851,817
Accumulated depreciation	(6,584,437)
	8,740,404
Accrued interest and other payables are not recognized in Governmental Funds	(348,310)
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	152,584
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	(5,157,198)
Accrued vacation payable	(212,103)
Revenue bonds payable	(400,215)
Reserve for losses and loss adjustment costs	(151,712)
Other postemployment benefit liability	(1,345,675)
Long-term transactions with component units	303,066
Capital lease obligations	(64,385)
	(7,028,222)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 2,467,128

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, 2010
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$ 2,279,310	$ -	$ -	$ -	$ 2,279,310
Net income tax — corporations and individuals	1,408,965	-	-	-	1,408,965
Public service companies tax	157,661	-	-	-	157,661
Transient accommodations tax	31,635	-	-	1,000	32,635
Tobacco and liquor taxes	129,576	-	-	20,020	149,596
Liquid fuel tax	-	-	-	82,780	82,780
Tax on premiums of insurance companies	104,667	-	-	1,181	105,848
Vehicle weight and registration tax	-	-	-	58,659	58,659
Rental motor/tour vehicle surcharge tax	-	-	-	40,401	40,401
Franchise tax	18,666	-	-	2,000	20,666
Other	17,918	-	-	14,247	32,165
Total taxes	4,148,398	-	-	220,288	4,368,686
Interest and investment income	61,251	-	-	63,267	124,518
Charges for current services	111,089	-	-	253,804	364,893
Intergovernmental	5,852	-	957,081	1,469,436	2,432,369
Rentals	392	-	-	19,320	19,712
Fines, forfeitures, and penalties	23,304	-	-	12,678	35,982
Licenses and fees	1,430	-	-	35,211	36,641
Revenues from private sources	15,195	-	-	42,655	57,850
Other	69,888	-	16,742	95,737	182,367
Total revenues	4,436,799	-	973,823	2,212,396	7,623,018
EXPENDITURES:					
Current:					
General government	344,110	16,442	-	75,738	436,290
Public safety	294,576	14,179	-	148,303	457,058
Highways	-	197,250	-	245,721	442,971
Conservation of natural resources	35,390	5,114	-	48,369	88,873
Health	503,625	53,920	-	244,378	801,923
Welfare	712,900	1,937	966,029	634,860	2,315,726
Lower education	1,720,097	235,362	-	369,607	2,325,066
Higher education	525,446	174,889	-	-	700,335
Other education	5,095	-	-	8,938	14,033
Culture and recreation	35,884	40,774	-	31,878	108,536
Urban redevelopment and housing	20,386	515	-	94,895	115,796
Economic development and assistance	28,269	34,145	-	103,906	166,320
Housing	114	24,039	-	-	24,153
Other	-	-	-	4,460	4,460
Debt service	-	-	-	428,175	428,175
Total expenditures	4,225,892	798,566	966,029	2,439,228	8,429,715
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	210,907	(798,566)	7,794	(226,832)	(806,697)
OTHER FINANCING SOURCES (USES):					
Issuance of general obligation and refunding general obligation bonds — par	-	532,000	-	515,305	1,047,305
Issuance of general obligation and refunding general obligation bonds — premium	3,187	-	-	55,993	59,180
Issuance of certificate of participation	43,997	-	-	-	43,997
Payment to refunded bond escrow agent	(48,411)	-	-	(571,297)	(619,708)
Other financing sources — other	4,415	-	-	-	4,415
Transfers in	16,586	149,858	14,165	541,201	721,810
Transfers out	(382,767)	(30,575)	(5,051)	(303,417)	(721,810)
Total other financing (uses) sources	(362,993)	651,283	9,114	237,785	535,189
NET CHANGE IN FUND BALANCES	(152,086)	(147,283)	16,908	10,953	(271,508)
FUND BALANCES — Beginning of year	185,020	37,503	6,108	993,549	1,222,180
FUND BALANCES — End of year	$ 32,934	$ (109,780)	$ 23,016	$ 1,004,502	$ 950,672

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, 2010
(Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ (271,508)
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	534,829
Depreciation expense	(358,275)
Excess of capital outlay over depreciation expense	176,554
Bond proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bond and revenue bonds issued.	(1,106,485)
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	750,921
Capital lease payments	1,235
Total long-term debt repayment	752,156
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	51,546
Bond issue and deferred costs reflected as other financing uses in Governmental Funds and reported in the statement of net assets — net of amortization.	26,581
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	(628,927)
Change in accrued vacation payable	(867)
Change in HHFDC long-term liability	1,397
Change in reserve for losses and loss adjustment costs	(951)
	(629,348)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (1,000,504)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 445,759	$ 82,808	$ 33,724	$ 124,533	$ 686,824
Restricted assets — cash and short-term investments	518,455	17,174	-	-	535,629
Receivables:					
Taxes	-	-	64,573	-	64,573
Accounts and accrued interest (net of allowance for doubtful accounts of $13,047)	20,780	7,697	-	2,641	31,118
Promissory note receivable (net of allowance for doubtful accounts of $10,277)	13	-	-	29,344	29,357
Federal government	14,363	465	-	-	14,828
Restricted assets — passenger facility charges	3,670	-	-	-	3,670
Other	1,543	294	-	14,426	16,263
Premiums	-	-	-	23,057	23,057
Restricted assets — investments — repurchase agreements and certificates of deposit	96,893	-	-	-	96,893
Materials and supplies inventory	227	246	-	-	473
Prepaid expenses and other assets	-	23	-	181	204
Total current assets	1,101,703	108,707	98,297	194,182	1,502,889
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	334,920	250,095	-	-	585,015
Construction in progress	229,547	22,751	-	-	252,298
Buildings and improvements	2,489,881	615,921	-	-	3,105,802
Equipment	216,834	16,026	-	14,733	247,593
	3,271,182	904,793	-	14,733	4,190,708
Less accumulated depreciation	(1,577,249)	(226,978)	-	(5,872)	(1,810,099)
Net capital assets	1,693,933	677,815	-	8,861	2,380,609
Bond issue costs — net	4,907	2,704	-	-	7,611
Promissory note receivable	99	-	-	362,989	363,088
Restricted assets — net direct financing leases	33,749	-	-	-	33,749
Restricted assets — other, cash, and investments	-	134,863	-	-	134,863
Other	-	690	-	-	690
Total noncurrent assets	1,732,688	816,072	-	371,850	2,920,610
TOTAL	$ 2,834,391	$ 924,779	$ 98,297	$ 566,032	$ 4,423,499

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 33,174	$ 9,521	$ 1,275	$ 370	$ 44,340
Payable from restricted assets — contracts payable, accrued interest, and other	38,387	14,068	-	-	52,455
Other accrued liabilities	9,478	-	-	975	10,453
Benefit claims payable	-	-	-	38,334	38,334
Prepaid airport use charge fund	2,553	-	-	-	2,553
Deferred revenue	6,328	-	-	-	6,328
General obligation bonds payable, current portion	-	1,141	-	-	1,141
Reserve for losses and loss adjustment costs	1,010	166	-	-	1,176
Accrued vacation, current portion	2,555	517	-	36	3,108
Payable from restricted assets — revenue bonds payable	25,300	10,856	-	-	36,156
Premiums payable	-	-	-	10,281	10,281
Total current liabilities	118,785	36,269	1,275	49,996	206,325
NONCURRENT LIABILITIES:					
General obligation bonds payable	-	36,221	-	-	36,221
Accrued vacation	5,978	1,737	-	392	8,107
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	1,031,342	218,294	-	-	1,249,636
Reserve for losses and loss adjustment costs	2,990	505	-	-	3,495
Other postemployment benefit liability	19,506	4,719	-	1,049	25,274
Other	8,756	-	-	-	8,756
Total long-term liabilities	1,068,572	261,476	-	1,441	1,331,489
TOTAL LIABILITIES	1,187,357	297,745	1,275	51,437	1,537,814
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	952,768	508,047	-	8,861	1,469,676
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	333,248	70,280	-	519,318	922,846
UNRESTRICTED	361,018	48,707	97,022	(13,584)	493,163
TOTAL NET ASSETS	$ 1,647,034	$ 627,034	$ 97,022	$ 514,595	$ 2,885,685

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, 2010
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 127,542	$ -	$ -	$ -	$ 127,542
Unemployment compensation tax	-	-	486,476	-	486,476
Aviation fuel tax	3,633	-	-	-	3,633
Airport use charges	55,948	-	-	-	55,948
Rentals	91,844	23,859	-	-	115,703
Services and others	763	47,951	-	-	48,714
Administrative fees	-	-	-	8,973	8,973
Premium revenue - self insurance	-	-	-	253,295	253,295
Other	5,001	1,530	-	7,083	13,614
Total operating revenues	284,731	73,340	486,476	269,351	1,113,898
OPERATING EXPENSES:					
Personnel services	123,856	14,926	-	1,669	140,451
Depreciation	92,861	16,068	-	983	109,912
Repairs and maintenance	27,276	3,493	-	32	30,801
Airports operations	44,223	-	-	-	44,223
Harbors operations	-	12,805	-	-	12,805
Fireboat operations	-	2,174	-	-	2,174
General administration	17,290	5,726	-	5,134	28,150
Unemployment compensation	-	-	686,141	-	686,141
Claims	-	-	-	248,281	248,281
Other	273	-	-	106	379
Total operating expenses	305,779	55,192	686,141	256,205	1,303,317
Operating (loss) income	(21,048)	18,148	(199,665)	13,146	(189,419)
NONOPERATING REVENUES (EXPENSES):					
Interest and investment income	39,445	9,868	6,218	13,419	68,950
Interest expense	(29,959)	(12,994)	-	-	(42,953)
Federal grants	4,117	-	-	-	4,117
Loss on disposal of capital assets	(389)	(105)	-	-	(494)
Passenger facility charges	29,322	-	-	-	29,322
Other	10,524	-	-	2,198	12,722
Total nonoperating revenues (expenses)	53,060	(3,231)	6,218	15,617	71,664
LOSS BEFORE CAPITAL CONTRIBUTIONS	32,012	14,917	(193,447)	28,763	(117,755)
CAPITAL CONTRIBUTIONS	43,746	3,865	-	46,371	93,982
CHANGE IN NET ASSETS	75,758	18,782	(193,447)	75,134	(23,773)
NET ASSETS — Beginning of year — as previously reported	1,571,276	608,252	290,469	437,214	2,907,211
ADJUSTMENTS (NOTE 15)	-	-	-	2,247	2,247
NET ASSETS — Beginning of year — as restated	1,571,276	608,252	290,469	439,461	2,909,458
NET ASSETS — End of year	$ 1,647,034	$ 627,034	$ 97,022	$ 514,595	$ 2,885,685

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 302,372	$ 73,337	$ -	$ -	$ 375,709
Cash received from taxes	-	-	98,725	-	98,725
Cash received from employer and employees for premiums and benefits	-	-	-	253,145	253,145
Cash paid to suppliers	(144,648)	(23,832)	-	(3,662)	(172,142)
Cash paid to employees	(62,875)	(13,438)	-	(3,235)	(79,548)
Cash paid for unemployment compensation	-	-	(688,385)	-	(688,385)
Cash paid to other State agencies for services rendered	-	-	-	(41)	(41)
Cash paid for premiums and benefits payable	-	-	-	(250,924)	(250,924)
Reserves returned by insurance carriers	-	-	-	854	854
Interest income from notes receivable	-	-	-	3,477	3,477
Administrative loan fees	-	-	-	3,707	3,707
Principal repayments on notes receivable	-	-	-	25,746	25,746
Disbursement of note receivable proceeds	-	-	-	(84,907)	(84,907)
Other cash receipts	-	-	335,733	-	335,733
Net cash provided by (used in) operating activities	94,849	36,067	(253,927)	(55,840)	(178,851)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Net advances to other funds	-	-	-	2,200	2,200
State capital contributions	-	-	-	2,675	2,675
Proceeds from federal operating grants	3,372	-	-	43,636	47,008
Disbursements of federal operating grants	-	-	-	(23,693)	(23,693)
Net cash provided by noncapital financing activities	3,372	-	-	24,818	28,190
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(126,224)	(14,559)	-	(3,018)	(143,801)
Repayment of general obligation and revenue bonds principal	(22,310)	(11,407)	-	-	(33,717)
Payments to refund airports system revenue bonds	(201,788)	-	-	-	(201,788)
Proceeds from issuance of refunding airport system revenue bonds	659,710	-	-	-	659,710
Bond issuance costs paid	(3,573)	-	-	-	(3,573)
Interest paid on bonds	(37,325)	(14,634)	-	-	(51,959)
Proceeds from passenger facility charges program	28,524	-	-	-	28,524
Proceeds from rental car customer facility charges	8,452	-	-	-	8,452
Payments from passenger facility charges program	(14,505)	-	-	-	(14,505)
Proceeds from federal, state, and capital grants	40,379	461	-	-	40,840
Net cash provided by (used in) capital and related financing activities	331,340	(40,139)	-	(3,018)	288,183
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	(112,725)	-	-	-	(112,725)
Proceeds from sales and maturities of investments	91,084	-	-	-	91,084
Interest from and change in fair value of investments	37,814	11,512	6,217	13,542	69,085
Net cash provided by investing activities	16,173	11,512	6,217	13,542	47,444
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	445,734	7,440	(247,710)	(20,498)	184,966
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — beginning of the year - as previously reported	518,480	227,405	281,434	145,031	1,172,350
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — end of year	$ 964,214	$ 234,845	$ 33,724	$ 124,533	$ 1,357,316

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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)	$ (21,048)	$ 18,148	$ (199,665)	$ 13,146	$ (189,419)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	1,849	-	-	1,849
Depreciation	92,861	16,068	-	983	109,912
Bad debt expense	2,066	-	-	-	2,066
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	10,303	-	-	-	10,303
Premium reserves held by insurance companies	-	-	-	854	854
Decrease (increase) in assets:					
Receivables	4,223	(1,745)	(52,018)	(62,286)	(111,826)
Inventory of materials and supplies	8	(5)	-	-	3
Deposits	-	-	-	(2,201)	(2,201)
Prepaid expenses	-	(690)	-	(148)	(838)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	(1,925)	(8)	(2,244)	(240)	(4,417)
Other accrued liabilities	7,299	2,450	-	1,711	11,460
Prepaid airport use charge fund	(411)	-	-	-	(411)
Deferred revenue	1,473	-	-	-	1,473
Accrued interest on loans receivable	-	-	-	(7,659)	(7,659)
Net cash provided by (used in) operating activities	$ 94,849	$ 36,067	$ (253,927)	$ (55,840)	$ (178,851)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	$ 708	$ (272)	$ -	$ -	$ 436
Principal payments relating to special facility revenue bonds	1,230	-	-	-	1,230
Interest payments relating to special facility revenue bonds	2,168	-	-	-	2,168
Development capital assets from other sources	-	3,865	-	-	3,865

See accompanying notes to basic financial statements. (Concluded)

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STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Agency Funds
ASSETS:	
Cash and cash equivalents	$ 331,105
Receivables — taxes	7,587
Due from individuals, businesses, and counties	54,049
Investments	73,130
Deposits and other assets — trust	13,634
Total assets	$ 479,505
LIABILITIES AND NET ASSETS:	
Vouchers payable	$ 50,863
Due to individuals, businesses, and counties	428,642
Total liabilities	$ 479,505

See accompanying notes to basic financial statements.

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(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	$ 47,031	$ 190,207	$ 35,344	$ 52,278
RECEIVABLES:				
Accounts and accrued interest (net of allowance for doubtful accounts of $177,399)	90,626	11,232	1,216	75,317
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	11,773	12,892	-	-
Federal government	-	-	5,475	-
Other	-	2,211	1,077	9,358
DUE FROM PRIMARY GOVERNMENT	3,788	-	53,233	42,425
INVESTMENTS	261,343	760	-	-
INVENTORIES:				
Developments in progress and dwelling units	-	23,237	-	-
Materials and supplies	13,470	-	884	15,924
PREPAID EXPENSES AND OTHER ASSETS	8,375	324	1,712	-
	436,406	240,863	98,941	195,302
RESTRICTED ASSETS:				
Cash and cash equivalents	-	29,054	-	2,071
Investments	-	305,797	-	-
Deposits, funded reserves, and other	-	409	7,183	-
Total restricted assets	-	335,260	7,183	2,071
CAPITAL ASSETS:				
Land and land improvements	101,007	43,378	25,340	6,484
Infrastructure	95,249	-	-	-
Construction in progress	170,744	-	27,386	31,224
Buildings, improvements, and equipment	1,924,971	157,758	582,231	502,097
Less accumulated depreciation	(935,107)	(93,317)	(327,173)	(254,219)
Total capital assets — net	1,356,864	107,819	307,784	285,586
OTHER ASSETS				
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts 187,560)	32,059	286,453	426	-
Due from Primary Government	335,480	15,494	-	-
Investments	499,332	7,010	-	-
Other assets	27,078	1,756	-	1,172
Total other assets	893,949	310,713	426	1,172
TOTAL	$ 2,687,219	$ 994,655	$ 414,334	$ 484,131

See accompanying notes to the basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 10,969	$ 42,268	$ 429	$ 378,526
-	1,001	1,273	180,665
-	-	-	24,665
-	-	-	5,475
9,326	1,452	-	23,424
-	3,290	-	102,736
847	-	192,108	455,058
-	-	-	23,237
-	-	-	30,278
-	1,092	-	11,503
21,142	49,103	193,810	1,235,567
9,730	-	-	40,855
15,363	-	-	321,160
-	-	-	7,592
25,093	-	-	369,607
131,497	140,957	-	448,663
-	43,125	-	138,374
-	4,915	-	234,269
214,242	19,257	-	3,400,556
(97,354)	(46,019)	-	(1,753,189)
248,385	162,235	-	2,468,673
-	-	-	318,938
-	-	-	350,974
-	-	-	506,342
-	4,268	-	34,274
-	4,268	-	1,210,528
$ 294,620	$ 215,606	$ 193,810	$ 5,284,375

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(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	$ 55,212	$ 1,220	$ 11,658	$ 70,586
Other accrued liabilities	134,085	14,474	3,780	-
Due to Primary Government	7,176	-	-	-
Due to federal government	-	-	16	-
Estimated future costs of land sold	-	35,482	-	-
Notes, mortgages, and installment contracts payable	-	54	123	13,771
Accrued vacation and retirement benefits payable	24,005	-	-	15,894
Revenue bonds payable	7,285	7,497	-	-
Reserve for losses and loss adjustment costs	4,172	-	-	3,100
Capital lease obligations	-	-	-	9,509
Deferred commitment fees	-	249	-	
Other liabilities	-	25,965	1,226	2,348
Total current liabilities	231,935	84,941	16,803	115,208
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	-	5,692	171	26,379
Accrued vacation and retirement benefits payable	41,888	-	-	22,177
Revenue bonds payable	344,315	460,844	-	-
Reserve for losses and loss adjustment costs	7,573	-	-	12,632
Premium on bonds payable	1,630	-	-	-
Capital lease obligations	-	-	-	24,871
Other postemployment benefit liability	206,271	-	-	105,205
Due to Primary Government	-	-	-	23,300
Other liabilities	7,660	4,165	6,064	25,502
Total noncurrent liabilities	609,337	470,701	6,235	240,066
TOTAL	841,272	555,642	23,038	355,274
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	1,099,820	7,715	307,659	222,054
RESTRICTED	680,298	335,255	7,160	672
UNRESTRICTED (DEFICIT)	65,829	96,043	76,477	(93,869)
TOTAL	1,845,947	439,013	391,296	128,857
TOTAL LIABILITIES AND NET ASSETS	$ 2,687,219	$ 994,655	$ 414,334	$ 484,131

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 680	$ 581	$ 3	$ 139,940
90	97	-	152,526
20,799	-	5,616	33,591
-	-	-	16
-	-	-	35,482
-	-	-	13,948
109	-	-	40,008
-	-	-	14,782
-	-	-	7,272
-	-	-	9,509
-	-	-	249
158	530	-	30,227
21,836	1,208	5,619	477,550
-	-	-	32,242
308	-	-	64,373
-	-	-	805,159
-	-	-	20,205
-	-	-	1,630
-	-	-	24,871
759	-	-	312,235
298,516	-	-	321,816
-	26,620	-	70,011
299,583	26,620	-	1,652,542
321,419	27,828	5,619	2,130,092
(20,985)	166,503	-	1,782,766
(5,814)	47,836	-	1,065,407
-	(26,561)	188,191	306,110
(26,799)	187,778	188,191	3,154,283
$ 294,620	$ 215,606	$ 193,810	$ 5,284,375

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,443,894	$ 60,326	$ 141,260	$ 572,310
PROGRAM REVENUES:				
Charges for services	339,840	38,665	21,990	471,177
Operating grants and contributions	474,347	32,327	70,143	3,228
Capital grants and contributions	-	-	17,496	37,945
Total program revenues	814,187	70,992	109,629	512,350
Net program (expenses) revenues	(629,707)	10,666	(31,631)	(59,960)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	28,146	9,847	-	943
Payments from (to) the State	711,800	24,839	58,581	98,261
Other	15,650	-	360	(2,790)
Net general revenues	755,596	34,686	58,941	96,414
Change in net assets	125,889	45,352	27,310	36,454
NET ASSETS — Beginning of year — as previously reported	1,720,058	393,661	363,986	92,403
ADJUSTMENTS (NOTE 15)	-	-	-	-
NET ASSETS — Beginning of year — as restated	1,720,058	393,661	363,986	92,403
NET ASSETS — End of year	$ 1,845,947	$ 439,013	$ 391,296	$ 128,857

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 157,448	$ 7,920	$ 4	$ 2,383,162
8,650	4,566	-	884,888
-	-	-	580,045
-	-	-	55,441
8,650	4,566	-	1,520,374
(148,798)	(3,354)	(4)	(862,788)
591	3,160	5,831	48,518
101,978	3,906	(5,613)	993,752
(978)	26	-	12,268
101,591	7,092	218	1,054,538
(47,207)	3,738	214	191,750
20,408	183,537	187,977	2,962,030
-	503	-	503
20,408	184,040	187,977	2,962,533
$ (26,799)	$ 187,778	$ 188,191	$ 3,154,283

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

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

Hawaii Housing Finance and Development Corporation — 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. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six shall be public members appointed by the Governor:
  - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
  - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai.
  - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.
  - The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
    - Two members to be appointed for four years;
    - Two members to be appointed for three years; and
    - Two members to be appointed for two years.
- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

Hawaii Public Housing Authority — The Hawaii Public Housing Authority (HPHA) was established as a corporate body to be placed within the Department of Human Services for administrative purposes. The HPHA is charged with managing federal and state public housing programs, including Section 8 and senior housing.

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

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

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

HRS Chapter 323F states that the HHSC shall be a public body corporate and politic and an instrumentality and agency of the State. The HHSC commenced operations on July 1, 1996. The statute provides that the HHSC shall be governed by a board of directors. In June 2007, the State Legislature enacted Act 290, SLH of 2007. The Act, which became effective on 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. Each regional board of directors was given custodial control and responsibility for management of the facilities and other assets in their respective regions.

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 non-profit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The Act also reconstituted the HHSC board of directors to a twelve-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.

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

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities, and fund balances between the Department of Health and the HHSC pursuant to Act 262 have not been finalized as of June 30, 2010. Accordingly, the assets, liabilities, and net assets of HHSC reflected in the accompanying consolidated statements of net assets may be significantly different from those eventually included in the final settlement.

The HHSC is divided into five regions and currently operates the following facilities:

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

West Hawaii Region:
- Kona Community Hospital
- Kohala Hospital

Kauai Region:
- Kauai Veterans Memorial Hospital
- Samuel Mahelona Memorial Hospital

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

Oahu Region:
- Leahi Hospital
- Maluhia
- Kahuku Medical Center

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.

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

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

- Thirteen members that vote on issues related to Kaka`ako and Kalaeloa:
    - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;

- Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;
- Four at-large members appointed by the Governor;
- The Director of Budget and Finance, as an Ex Officio voting member;
- The Director of DBEDT, as an Ex Officio voting member;
- The Comptroller of the Department of Accounting and General Services, an Ex Officio voting member; and
- The Director of Transportation, as an Ex Officio voting member.

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

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

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

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.

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

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

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

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

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

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

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

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

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

- 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 Revolving Treatment Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

Fiduciary Fund Types —

- 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.

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

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

Investments — Investments in U.S. government securities 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.

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

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

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

- Federal aid highway projects encumbrances.
- Bond redemption and other.

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

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

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

Risk Management — The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1 million per occurrence of property losses, the first $4 million with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $100 million, except for flood and earthquake, which individually is a $100 million aggregate loss, and terrorism which is $50 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is $10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of $25 million per occurrence and $29 million 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. 51 — The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for periods beginning after June 15, 2009. This statement establishes accounting and financial reporting requirements for intangible assets. The State's financial statements were not impacted by the adoption of GASB Statement 51.

GASB Statement No. 53 — The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The Statement requires governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. The State's financial statements were not impacted by the adoption of GASB Statement 53.

GASB Statement No. 54 — The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* effective for periods beginning after June 15, 2010. This Statement establishes standards of accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specially defined classifications and clarifies definitions for governmental fund types. This Statement is effective for financial statement periods beginning after June 15, 2010.

GASB Statement No. 55 — The GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued in March 2009. The objective of this Statement is to incorporate the hierarchy of GAAP for state and local governments into the GASB's authoritative literature. The provisions of this Statement are effective for financial statements upon issuance in March 2009.

GASB Statement No. 56 — The GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement incorporates into GASB the following three accounting and reporting guidelines currently existing in the American Institute of Certified Public Accounts' Statement on Auditing Standards — related party transactions, going concern considerations and subsequent events. The adoption of GASB Statement No. 56 did not have an impact on the State's financial position or results of operations.

GASB Statement No. 57 — The GASB issued Statement No. 57, *OPEB Measurements by Agent Employers, and Agent Multiple-Employer Plans*. The provisions related to the use and reporting of the alternative measurement method were adopted and had no impact to the State's financial statements. The State is currently evaluating the impact of the provisions related to the frequency and timing of measurements which are effective for periods beginning after June 15, 2011.

GASB Statement No. 58 — The GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for periods beginning after June 15, 2009. This statement improves financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. This State's financial statements were not impacted by the adoption of GASB Statement No. 58.

GASB Statement No. 59 — The GASB issued Statement No. 59, *Financial Instruments Omnibus*, effective for periods beginning after June 15, 2010. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The State is currently evaluating the impact that GASB Statement No. 59 will have on its financial statements.

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 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. Statement 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. Statement 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. 64 — The GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* which will become effective for financial statements for periods beginning after June 15, 2011. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The State does not expect that this Statement will have a material effect 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, 2010, was $1,500,886,000 and $804,804,000, respectively, for the Primary Government and $331,105,000 for the Fiduciary Funds.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to $2,353,137,000 at June 30, 2010. Of that amount, $2,353,137,000 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 $33,724,000 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, 2010, 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, 2010 (amounts expressed in thousands).

		Maturity (in years)		
	Fair Value	**Less than 1**	**1–5**	**>5**
Investments — Primary Government:				
Student loan auction rate securities	$ 337,948	$ -	$ -	$ 337,948
Certificates of deposit	7,504	3,937	3,567	-
U.S. government securities	294,145	207,364	73,431	13,350
Repurchase agreements	269,557	234,408	35,149	-
	$ 909,154	$ 445,709	$ 112,147	$ 351,298
Investments — Fiduciary Funds:				
Student loan auction rate securities	$ 46,804	$ -	$ -	$ 46,804
Certificates of deposit	731	731	-	-
U.S. government securities	23,401	-	-	23,401
Repurchase agreements	2,194	2,194	-	-
	$ 73,130	$ 2,925	$ -	$ 70,205

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 2010, the State recorded a fair value adjustment of $146,644,000 to increase the carrying value of the State investment pool's auction rate securities to their fair value at June 30, 2010. See additional information on auction rate securities at Footnote No. 14.

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

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

3. CAPITAL ASSETS

For the fiscal year ended June 30, 2010, 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, 2009	Additions	Deductions	Balance, June 30, 2010
Capital assets not being depreciated:				
Land and land improvements	$ 2,066,493	$ 68,215	$ (6,022)	$ 2,128,686
Construction in progress	880,248	496,343	(686,862)	689,729
Total capital assets not being depreciated	2,946,741	564,558	(692,884)	2,818,415
Capital assets being depreciated:				
Infrastructure	8,221,045	433,818	(254)	8,654,609
Buildings and improvements	3,291,469	210,184	-	3,501,653
Equipment	344,770	18,271	(12,877)	350,164
Total capital assets being depreciated	11,857,284	662,273	(13,131)	12,506,426
Less accumulated depreciation:				
Infrastructure	(4,223,950)	(233,100)	254	(4,456,796)
Buildings and improvements	(1,737,654)	(108,183)	-	(1,845,837)
Equipment	(272,321)	(16,992)	7,509	(281,804)
Total accumulated depreciation	(6,233,925)	(358,275)	7,763	(6,584,437)
Total capital assets	$ 8,570,100	$ 868,556	$ (698,252)	$ 8,740,404

	Business-Type Activities			
	Adjusted Balance, July 1, 2009 (As Restated See note 15)	Additions	Deductions	Balance, June 30, 2010
Capital assets not being depreciated:				
Land and land improvements	$ 585,015	$ -	$ -	$ 585,015
Construction in progress	310,016	188,344	(246,062)	252,298
Total capital assets not being depreciated	895,031	188,344	(246,062)	837,313
Capital assets being depreciated:				
Buildings and improvements	2,875,585	226,695	(104)	3,102,176
Equipment	229,933	23,043	(1,757)	251,219
Total capital assets being depreciated	3,105,518	249,738	(1,861)	3,353,395
Less accumulated depreciation:				
Buildings and improvements	(1,541,419)	(98,421)	-	(1,639,840)
Equipment	(160,020)	(11,491)	1,252	(170,259)
Total accumulated depreciation	(1,701,439)	(109,912)	1,252	(1,810,099)
Total capital assets	$ 2,299,110	$ 328,170	$ (246,671)	$ 2,380,609

Depreciation expense for the fiscal year ended June 30, 2010, was charged to functions/programs of the Primary Government as follows:

	2010
Governmental activities:	
Highways	$ 221,432
Lower education	62,427
General government	20,100
Public safety	11,575
Urban redevelopment and housing	19,848
Conservation of natural resources	10,431
Health	4,631
Economic development and assistance	4,460
Welfare	2,405
Culture and Recreation	966
Total depreciation expense — governmental activities	$ 358,275
Business-type activities:	
Airports	$ 92,861
Harbors	16,068
DWTLF	69
EUTF	914
WPCRF	-
Total depreciation expense — business-type activities	$ 109,912

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 certain maturities of Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA, issued January 1, 1983; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; 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 and Series DX, issued February 18, 2010, contain call provisions. Stated interest rates range from 3% to 6%.

On November 5, 2009, the State issued $32,000,000 general obligation bonds, Qualified School Construction Bonds, Series DS. Interest rates ranged from .2% to 1.45%. The Series DS bonds are subject to redemption prior to their stated maturity dates only upon extraordinary mandatory redemption as provided in the Bond Issuance Certificate, otherwise it is not subject to early redemption. Bond series were issued at a discount, which will be amortized over the life of the bonds using the effective interest rate method. The bonds were issued for the purpose of financing costs of the construction, rehabilitation or repair of school facilities throughout the State.

On November 24, 2009, the State issued $204,140,000, $6,260,000, $46,855,000 and $36,425,000 of general obligation refunding bonds of 2009, Series DT, DU, DV and DW, respectively. Interest rates ranged from 2% to 5% to advance refund $283,085,000 of certain outstanding general obligation bonds previously issued. The net proceeds of $320,404,000 (including a premium of $28,042,000 and after payment of $1,318,000 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 10 years by $65,000,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $19,347,000. The Series DT, DU, DV and DW bonds are not subject to optional 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.

On February 18, 2010, the State issued $500,000,000 general obligation bonds, Series DX (Build America Bonds) with interest rates ranging from 3% to 5.53%. The Series DX are subject to redemption at the option of the State as described in the certificate under optional make-whole redemption and extraordinary optional redemption, prior to their 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 bond series DX was issued for the purpose of financing the Hawaiian Home Lands Trust settlement and various public improvement projects.

In addition, the State issued $221,625,000 of general obligation refunding bonds of 2010, Series DY, dated February 18, 2010. Interest rates ranged from 3% to 5% to advance refund $227,455,000 of certain outstanding general obligation bonds previously issued. The net proceeds of $248,642,000 (including a premium of $27,951,000 and after payment of $934,000 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 increased its total debt service payments over the next 10 years by $27,628,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $4,849,000. The Series DY bonds are not subject to optional 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, 2010, $913,150,000 of bonds outstanding is considered defeased.

At June 30, 2010, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 3,943,850
Noncallable	1,250,710
Total general obligation bonds outstanding	5,194,560
Less amount recorded as a liability of:	
Proprietary Funds — Harbors	(37,362)
Amount recorded in the governmental activities of the Primary Government	$ 5,157,198

A summary of general obligation bonds outstanding by series as of June 30, 2010, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
BW	March 1, 1992	6.250%	March 1, 2012	$ 100,000	$ 5,555
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	10,000
CH	November 1, 1993	4.750%	November 1, 2011–2013	250,000	41,655
CI	November 1, 1993	4.900%	November 1, 2010	316,915	10,865
CL	March 1, 1996	6.000%	March 1, 2011	100,000	5,555
CM	December 1, 1996	6.000-6.500%	December 1, 2012–2016	150,000	41,650
CO	March 1, 1997	6.000%	September 1, 2010, March 1, 2011	231,755	26,035
CP	October 1, 1997	5.500%	October 1, 2010	200,000	3,345
CV	August 1, 2001	4.800%–5.500%	August 1, 2011–2021	300,000	67,790
CW	August 1, 2001	4.200%–5.500%	August 1, 2010–2015	156,750	78,335
CX	February 15, 2002	4.300%–5.500%	February 1, 2012–2022	250,000	90,955
CY	February 15, 2002	5.500%–5.750%	February 1, 2011–2015	319,290	188,110
CZ	November 26, 2002	3.500%–5.500%	July 1, 2011–2022	300,000	46,305
DA	September 16, 2003	3.750%–5.250%	September 1, 2011–2023	225,000	178,870
DB	September 16, 2003	4.000%–5.250%	September 1, 2010–2016	188,650	142,115
DD	May 13, 2004	3.700%–5.250%	May 1, 2012–2024	225,000	169,885
DE	November 10, 2004	3.000%–5.000%	October 1, 2011–2024	225,000	205,085
DF	June 15, 2005	3.250%–5.000%	July 1, 2011–2025	225,000	206,600
DG	June 15, 2005	5.000%	July 1, 2010–2017	722,575	657,390
DI	March 23, 2006	3.800%–5.500%	March 1, 2013–2026	350,000	306,490
DJ	April 12, 2007	3.625%–5.000%	April 1, 2012–2027	350,000	320,990
DK	May 20, 2008	3.000%–5.000%	May 1, 2012–2028	375,000	373,920
DL	May 20, 2008	3.000%–5.000%	May 1, 2012–2018	29,010	29,010
DM	May 20, 2008	4.010%–4.670%	May 1, 2011–2014	25,000	17,255
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	101,825
DP	December 16, 2008	4.150%–5.680%	August 1, 2011–2016	26,000	26,000
DQ	June 23, 2009	3.000%–5.000%	June 1, 2013–2029	500,000	490,220
DR	June 23, 2009	3.000%–5.000%	June 1, 2014–2019	225,410	203,910
DS	November 5, 2009	0.200%–1.450%	September 15, 2014–2024	32,000	32,000
DT	November 24, 2009	2.250%–5.000%	November 1, 2014–2019	204,140	204,140
DU	November 24, 2009	4.000%	November 1, 2011	6,260	6,260
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
					$ 5,194,560

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

A summary of the bond premium activities for fiscal year 2010 is as follows (amounts expressed in thousands):

Balance — July 1, 2009	$ 231,245
Additions — GO Bond Series DT, DU, DV, DW, DX, and DY	59,180
Current-year amortization	(38,038)
Balance — June 30, 2010	$ 252,387

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
2011	$ 169,654	$ 246,753	$ 416,407
2012	285,911	238,059	523,970
2013	369,552	223,167	592,719
2014	384,967	205,746	590,713
2015	434,911	187,798	622,709
2016–2020	1,840,653	645,518	2,486,171
2021–2025	1,093,179	301,574	1,394,753
2026–2030	578,371	72,350	650,721
	$ 5,157,198	$ 2,120,965	$ 7,278,163

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
2011	$ 1,141	$ 1,819	$ 2,960
2012	1,609	1,772	3,381
2013	1,678	1,702	3,380
2014	1,758	1,623	3,381
2015	1,844	1,537	3,381
2016–2020	10,642	6,262	16,904
2021–2025	13,536	3,368	16,904
2026–2028	5,154	400	5,554
	$ 37,362	$ 18,483	$ 55,845

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, 2010, was $320,845,000.

At June 30, 2010, general obligation bonds authorized but unissued were approximately $981,814,000.

5. REVENUE BONDS PAYABLE

Governmental Activities — 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 3% to 6% to finance the construction of certain DHHL capital improvements projects. The bonds are payable semiannually on April and October 1 through 2039.

The bonds are payable from and collateralized by the Department's revenues generated from certain capital improvement projects.

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% 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 October 25, 2001, Highways issued $70,000,000 of State of Hawaii Highway Revenue Bonds, Series of 2001. The bonds bear interest at rates ranging from 4% to 5% and are payable semiannually on January and July 1 through July 2022.

On October 31, 2000, Highways issued State of Hawaii Highway Revenue Bonds, Series of 2000, in the principal amount of $45,630,000. The bonds bear interest at rates ranging from 4.9% to 5.5% and mature in annual installments through July 2010.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 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.

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

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2010, bonds outstanding considered defeased amounted to $72,295,000.

The following is a summary of Highways' and DHHL revenue bonds issued and outstanding at June 30, 2010 (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
2000	October 31, 2000	4.90%–5.50%	July 1, 2010	45,630	2,335
2001	October 25, 2001	4.00%–5.00%	July 1, 2010–2022	70,000	11,450
2003	April 15, 2003	3.50%–5.25%	July 1, 2010–2013	44,940	20,115
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2010–2025	60,000	51,385
2005 B	March 15, 2005	3.00%–5.25%	July 1, 2010–2021	123,915	123,915
2008	December 17, 2008	4.00%–6.00%	January 1, 2011–2029	125,175	121,575
DHHL:					
2009	April 2, 2009	3.00%–6.00%	April 1, 2011–2039	42,500	41,860
					$ 400,215

A summary of the revenue bond premium activities for fiscal year 2010 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance — July 1, 2009	$ 15,778
Current-year amortization	(4,034)
Balance — June 30, 2010	$ 11,744

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

Fiscal Year	Principal	Interest	Total
2011	$ 21,590	$ 19,970	$ 41,560
2012	22,410	19,072	41,482
2013	23,340	18,080	41,420
2014	24,440	16,957	41,397
2015	25,840	15,757	41,597
2016–2020	134,990	58,026	193,016
2021–2025	78,700	30,685	109,385
2026–2030	48,405	13,053	61,458
2031–2035	10,065	4,986	15,051
2036–2039	10,435	1,611	12,046
	$ 400,215	$ 198,197	$ 598,412

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

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

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2010 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2000A, refunding	5.50%–6.00%	2021	$ 26,415	$ 155
2000B, refunding	5.00%–6.00%	2020	261,465	26,100
2001, refunding	4.00%–5.75%	2021	423,255	345,160
2010A, refunding	2.00%–5.25%	2039	478,980	478,980
2010B, refunding	3.00%–5.00%	2020	166,000	166,000
			$ 1,356,115	1,016,395
Add unamortized premium				19,295
Less:				
Unamortized discount				
Deferred loss on refunding				(12,573)
Current portion				(23,615)
				$ 999,502

The liabilities for refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2010, bonds outstanding considered defeased amounted to $228,615,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provides reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverage for fire, workers' compensation, and public liability. At June 30, 2010, $232,484,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

On April 7, 2010, the Airports Division issued $478,980,000 and $166,000,000 of airports system revenue bonds (Refunding Series 2010A and Refunding Series 2010B, respectively) at interest rates ranging from 2.00% to 5.25% and 3.00% to 5.00%, respectively, to refund $196,015,000 of its outstanding Refunding Series of 2000A and 2000B bonds. Of the net proceeds of $656,137,000 (after the payment of $3,573,000 in underwriting fees, insurance and other costs), along with an additional $3,069,000 from the debt service reserve account, $204,061,000 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Refunding Series of 2000A and 2000B bonds on July 1, 2010. As a result, the refunded portion of the Refunding Series 2000A and 2000B bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $7,942,000. This difference, reported in the accompanying financial statements as a reduction from airports system revenue bonds, is being charged to operations over the next 11 years.

Airports Special Facility Revenue Bonds — Airports entered into three special facility lease agreements, two with Continental Airlines, Inc. ("Continental") in November 1997 and July 2000, and one with Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. ("Sky Chefs") effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $33,525,000 at June 30, 2010.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2010.

$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

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2003, at the option of Airports, upon the request of Sky Chefs, at prices ranging from 103% to 100%, depending on the dates of redemption, or at 100%, plus interest if the facilities are destroyed or damaged extensively.

Special facility revenue bonds payable at June 30, 2010, consisted of the following (amounts expressed in thousands):

	Continental		Sky Chefs	Total
Current portion	$ 785	$ -	$ 900	$ 1,685
Noncurrent portion	10,115	21,725	-	31,840
	$ 10,900	$ 21,725	$ 900	$ 33,525

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

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

The following is a summary of the Harbors' revenue bonds as of June 30, 2010 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current: Principal Due July 1, 2010	Current: Principal Due January 1, 2011	Current: Total	Noncurrent
2000	July 1, 2029	4.50%–6.00%	$ 79,405	$ 2,785	$ -	$ 2,785	$ 53,600
2002	July 1, 2019	3.00%–5.50%	24,420	555	-	555	10,585
2004	January 1, 2024	2.50%–6.00%	52,030	-	3,770	3,770	23,365
2006	January 1, 2031	4.00%–5.25%	96,570	-	2,415	2,415	85,590
2007	July 1, 2027	4.25%–5.50%	51,645	1,470	-	1,470	48,150
			$ 304,070	4,810	6,185	10,995	221,290
Add unamortized premium						306	1,864
Less:							
Unamortized discount						(6)	(69)
Unamortized deferred loss on refunding						(439)	(4,791)
				$ 4,810	$ 6,185	$ 10,856	$ 218,294

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
2011	$ 36,156	$ 58,555	$ 94,711
2012	35,085	64,878	99,963
2013	40,550	62,707	103,257
2014	59,740	60,003	119,743
2015	58,215	56,770	114,985
2016–2020	363,190	228,679	591,869
2021–2025	212,595	143,764	356,359
2026–2030	170,350	100,282	270,632
2031–2035	138,210	59,543	197,753
2036–2040	171,701	21,882	193,583
	$ 1,285,792	$ 857,063	$ 2,142,855

The above debt service requirements are set forth based upon funding requirements and are presented before unamortized premiums, discounts, and deferred loss on refunding, aggregating $3,587,000.

Revenue Bonds Authorized, but Unissued — At June 30, 2010, revenue bonds authorized, but unissued were approximately $4,347,661,000.

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, 2010, amounted to $1,744,303,000. At June 30, 2010, special purpose revenue bonds of $1,643,640,000 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, 2010.

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, 2009	Additions	Deductions	Balance — June 30, 2010	Due Within One Year
General obligation bonds payable — net	$ 4,779,666	$ 1,047,305	$ (669,773)	$ 5,157,198	$ 169,654
Accrued vacation payable	211,236	92,870	(92,003)	212,103	64,930
Revenue bonds payable	420,605	-	(20,390)	400,215	21,590
Reserve for losses and loss adjustment costs	150,761	32,770	(31,819)	151,712	37,544
Other postemployment benefits liability	716,748	817,321	(188,394)	1,345,675	-
Capital lease obligations	71,685	41,120	(48,420)	64,385	1,495
Total	$ 6,350,701	$ 2,031,386	$ (1,050,799)	$ 7,331,288	$ 295,213

	Business-Type Activities				
	Balance — July 1, 2009	Additions	Deductions	Balance — June 30, 2010	Due Within One Year
General obligation bonds payable — net	$ 38,329	$ -	$ (967)	$ 37,362	$ 1,141
Accrued vacation and retirement benefits payable	10,945	5,040	(4,770)	11,215	3,108
Revenue bonds payable	861,423	665,458	(241,089)	1,285,792	36,156
Reserve for losses and loss adjustment costs	4,707	945	(981)	4,671	1,176
Other postemployment benefits liability	13,288	19,100	(3,892)	28,496	3,222
Other	953	10,767	(411)	11,309	2,553
	$ 929,645	$ 701,310	$ (252,110)	$ 1,378,845	$ 47,356

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 84%, 15%, 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, 2010.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2010 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Special Revenue Fund	$ 1,567	$ 12,600
Capital Projects Fund	89,900	-
Debt Service Fund	-	118
Nonmajor Governmental Funds	58,000	-
	149,467	12,718
Capital Projects Fund:		
General Fund	-	89,900
Med-Quest Special Revenue Fund:		
Special Revenue Fund	12,600	-
Nonmajor Governmental Funds:		
General Fund	118	59,567
	$ 162,185	$ 162,185

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

8. TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended, or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2010, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 16,586	$ 382,767
Capital Projects Fund — Nonmajor Governmental Funds	149,858	30,575
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	14,165	5,051
Nonmajor Governmental Funds:		
General Fund	5,494	16,586
Capital Projects Fund	30,575	149,858
Other Nonmajor Governmental Funds	505,132	136,973
	541,201	303,417
	$ 721,810	$ 721,810

The General Fund transferred approximately $376,775,000 to the Nonmajor Governmental Funds for debt service payments and approximately $5,991,000 to subsidize various Special Revenue Funds programs. Approximately, $149,858,000 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 2023. Future minimum lease commitments for noncancelable operating leases as of June 30, 2010, were as follows (amounts expressed in thousands):

Fiscal Year	
2011	$ 16,207
2012	10,492
2013	6,856
2014	4,241
2015	2,159
2016-2020	5,276
2021-2023	1,648
Total future minimum lease payments	$ 46,879

Rent expenditures for operating leases for the fiscal year ended June 30, 2010, amounted to approximately $39,716,000.

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 Capital 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	
2011	$ 4,417
2012	8,059
2013	8,061
2014	8,061
2015	8,059
2016–2020	31,497
2021–2025	8,559
2026–2030	8,551
2031–2032	3,425
Total future minimum lease payments	88,689
Less amount representing interest	(24,304)
Present value of net minimum lease payments	64,385
Less current portion	(1,495)
Noncurrent portion	$ 62,890

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 2010 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 $3,633,000 for fiscal 2010.

Airports — System Rates and Charges

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

- Landing fees, net of aviation fuel tax credits, amounted to $59,262,000 for fiscal 2010, 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 38% of the Airports landing fees for overseas flights for 2010.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $38,544,000 for fiscal 2010. 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 $39,576,000 for fiscal 2010, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $23,032,000 for fiscal 2010.

- Airports system support charges amounted to $762,000 for fiscal 2010. 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, 2010, was approximately $42,142,000.

In fiscal 2006, Airports converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from zero to nine years. The balance of $2,602,000 at June 30, 2010, is due as follows: 2011 — $2,503,000; 2012 — $12,000; 2013 — $12,000; and $75,000 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 30% of total concession fees revenues for the fiscal year ended June 30, 2010.

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

In 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.

Harbors — Leasing Operations

Harbors leases land, wharf, and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through September 2058. Those leases generally call for rental increases every 5 to 10 years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2010, amounted to $23,858,000 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, 2010 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	**Airports**	**Harbors**	**Total**
2011	$ 107,533	$ 8,467	$ 116,000
2012	101,345	8,280	109,625
2013	91,845	7,981	99,826
2014	87,190	7,824	95,014
2015	53,374	6,460	59,834
2016–2020	113,414	23,317	136,731
2021–2025	11,805	21,094	32,899
2026–2030	6,677	17,389	24,066
2031–2035	2,445	12,457	14,902
2036–2040	1,211	6,952	8,163
2041–2045	-	4,288	4,288
2046–2050	-	2,702	2,702
2051–2055	-	2,685	2,685
2056–2060	-	1,460	1,460
	$ 576,839	$ 131,356	$ 708,195

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, 2010, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 55,539
Less amount representing interest	(26,277)
	29,262
Cash with trustee and other	4,487
	$ 33,749

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2010, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2011	$ 3,716
2012	2,765
2013	2,777
2014	2,778
2015	2,770
2016–2020	13,883
2021–2025	6,110
2026–2028	24,780
	$ 59,579

10. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

Hawaii Housing Finance and Development Corporation

Amounts payable from the State to the HHFDC include approximately $17,163,000 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 and imputed interest rate. As of June 30, 2010, amounts due from the State included approximately $17,163,000 of principal, net of approximately $2,930,000 of imputed interest, and approximately $293,000 of accrued interest receivable during the year ended June 30, 2010.

Hawaii Health Systems Corporation

HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2010, 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 HHCS 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.

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 TAT 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 the Authority 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, 2010, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $269,370,000 and $179,923,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows:

Fiscal Year	Principal	Interest	Total
2011	$ 11,030	$ 15,401	$ 26,431
2012	11,690	14,739	26,429
2013	12,390	14,038	26,428
2014	13,135	13,294	26,429
2015	13,920	12,506	26,426
2016-2020	83,185	48,953	132,138
2021-2025	111,330	20,817	132,147
2026-2027	12,690	40,175	52,865
	$ 269,370	$ 179,923	$ 449,293

Subsequent to June 30, 2005, Budget and Finance informed the HTA that it is required to meet the debt service obligations on the bonds for the period from July 1, 2000 to June 30, 2002. The HTA did not believe it was required to meet these obligations for periods prior to the establishment of the Convention Center Fund and, accordingly, had not recorded this liability in its financial statements. This matter was being contested with Budget and Finance. On August 4, 2011, the State Attorney General opined in favor of Budget and Finance and the HTA increased its liability to the Budget and Finance by $52,865,435, consisting of principal and interest of $12,690,000 and $40,175,435, respectively, at June 30, 2010. The HTA's liability to Budget and Finance is to be primarily funded by an allocated portion of the State's TAT revenue.

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, 2010, interest earned and transferred into the State General Fund amounted to $5,613,000.

11. RETIREMENT BENEFITS

Employee 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. 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, 2010, 2009, and 2008, were approximately $398,724,000, $387,748,000, and $377,475,000, respectively. The State contributed 100% of its required contribution for those years. Covered payroll for the fiscal year ended June 30, 2010, was approximately $2,628,369,000.

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 State also contributes to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006. HSTA VEBA provides health benefits only to HSTA members, retirees and their dependents. Both the EUTF and the HSTA VEBA plans currently provide medical, prescription drug, dental, vision, chiropractic, and group life insurance benefits. 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. The HSTA VEBA also issues an annual financial report that is available to the public. That report may be obtained by writing to the HSTA VEBA at 1350 South King Street, Suite 230, Honolulu, Hawaii 96814.

In January of 2011 subsequent to June 30, 2010, the State decided to merge the EUTF and the HSTA plans into one healthcare and life insurance plan available to all qualified employees.

The eligibility requirements for retiree health benefits are the same for both plans as follows:

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 EUTF and HSTA VEBA 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, 2009.

The State's base contribution levels to EUTF are established by statutes while the contribution levels to the HSTA VEBA are determined under collective bargaining agreements. In both plans, 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, the percentage of annual OPEB cost contributed to the plans, the net OPEB liability, and the funding status for each of the plans for each of the plans for the fiscal year ended June 30, 2010 (amounts in thousands):

	EUTF	HSTA VEBA
Annual required contribution	$ 685,818	$ 201,246
Interest on net OPEB obligation	22,421	10,264
Adjustment to annual required contribution	(20,392)	(9,331)
Annual OPEB cost	687,847	202,179
Contributions made	(190,931)	(17,602)
Increase in net OPEB obligation	496,916	184,577
Net OPEB obligation — beginning of year	549,774	256,449
Net OPEB obligation — end of year	$ 1,046,690	$ 441,026
Actuarial accrued liability (AAL) July 1, 2009	$ 11,523,301	$ 2,484,179
Funded OPEB plan assets		
Unfunded actuarial accrued liability (UAAL) July 1, 2009	$ 11,523,301	$ 2,484,179
Funded ratio	- %	- %
Covered payroll	1,431,908	682,942
UAAL as percentage of covered payroll	805%	364%

The aggregate net OPEB liability at the end of the year of $1,046,690 and $441,026 for EUTF and HSTA VEBA respectively does not agree to the OPEB liability in the Statement of Net Assets due to reconciling items in the University of Hawaii's OPEB liability.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the preceding year were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation
EUTF	June 30, 2010	$ 687,847	27.8%	$ 1,046,690
	June 30, 2009	439,567	36.1%	549,774
	June 30, 2008	429,195	38.6%	268,791
HSTA VEBA	June 30, 2010	$ 202,179	8.7%	$ 441,026
	June 30, 2009	145,282	10.6%	256,449
	June 30, 2008	138,954	8.9%	126,558

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	HSTA VEBA
Actuarial valuation date	July 1, 2009	July 1, 2009
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	30 years (Open)	30 years (Open)
Asset valuation method	N/A	N/A
Actuarial assumptions:		
Investment rate of return	4%	4%
Projected salary increases	3.5%	3.5%
Healthcare inflation rate	10.5% initial	10.5% initial
Medical & Rx Pre-65	10.5% initial	10.5% initial
	5% ultimate	5% ultimate
Medical & Rx Post-65	10.25% initial	10.25% initial
	5% ultimate	5% ultimate
Dental	6% initial	6% initial
	4 % ultimate	4 % ultimate
Vision	4% initial	4% initial
	3% ultimate	3% ultimate
Medicare Part B	5% ultimate	5% 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, 2010, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 34,616
Agriculture	7,283
Natural Resources	4,719
All Other	582
	$ 47,200

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, 2010, accumulated sick leave was approximately $1,543,130,000.

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 $183,500,000 for aquacultural loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2010.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2010, the Enterprise Funds had commitments of approximately $332,690,000 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, 2010, 2009, and 2008, approximated $11,171,000, $1,171,000, and $6,106,000, 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 $50,922,000 during the fiscal year ended June 30, 2010. As of June 30, 2010, the State expects to receive $28,800,000 for the first six months of fiscal 2011.

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

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. 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 two 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 will convene 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.

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 (1^{st} 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 nocause of action defenses, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The 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. Trial to determine whether, and to what extent, if any, subclass members sustained out-of-pocket damages is yet to be scheduled.

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 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 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. By an opinion filed 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. The application was accepted and oral argument will be heard by the Supreme Court on October 6, 2011.

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 $346,900,000 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"). Plaintiffs' First Amended Complaint alleges that Defendants have violated 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. Plaintiffs' action claims that Defendants' conduct constitutes a breach of contract and negligence. Plaintiffs' action seeks declaratory and injunctive relief, damages, prejudgment interest, and attorneys' fees and costs. 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 that 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) the State Legislature is not precluded from changing health benefits for prospective employees; (d) 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 (e) certain of the health benefits provided to retirees and their dependents by the EUTF are not reasonably approximate to those provided to active employees and their dependents. The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to this matter. The State appealed the adverse decision of the Hawaii circuit court. The Hawaii Supreme court heard oral argument on the appeal in November 2009 and the parties are awaiting a decision.

Department of Education

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 to June 30, 2005. This case was decided by the Hawaii Intermediate Court of Appeals on October 30, 2009. The court held that the State had underpaid its substitute teachers during the period July 1, 1996 to June 30, 2005. The Hawaii Supreme Court denied the State's application for a writ of certiorari. The case will return to circuit court for determination of damages and attorney's fees. The State is unable to predict with reasonable certainty the magnitude of its potential liability. A similar and somewhat related class action by part-time teachers is on hold pending the resolution of the substitute teachers' appeals.

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 $100,000,000, except for flood and earthquake which individually is a $100,000,000 aggregate loss and terrorism which is $50,000,000 per occurrence and a $50,000 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 $10,000,000.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Medical Insurance

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $25,000,000 per occurrence and $29,000,000 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, 2010, 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, 2010 (amounts expressed in thousands):

	2010	2009
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 150,761	$ 155,303
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	34,332	27,534
Decrease in provision for insured events of prior fiscal years	(1,562)	(5,977)
Total incurred losses and loss adjustment costs	32,770	21,557
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(15,190)	(5,028)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(16,629)	(21,071)
Total payments	(31,819)	(26,099)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 151,712	$ 150,761

14. SUBSEQUENT EVENTS

Auction Rate Securities Settlement

On November 23, 2010, the State and Citigroup Global Markets 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.

Department of Transportation — Airports Division

On July 1, 2011, Standard & Poor's (S&P's) Ratings Services upgraded the rating of Airports Division Revenue Bonds to A from A-. The ratings upgrade was based on S&P's positive analysis of the airport system's strong financial liquidity and increased certainty over the scope and size of its capital improvement plans. S&P also cited a stable future outlook for the upgrade.

On September 14, 2011, the State issued $300,885,000 of Airports System Revenue Bonds Refunding Series 2011. The Refunding Bond proceeds were used to advance refund outstanding Airport System Revenue Bonds previously issued. The net proceeds 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 Airports System Revenue Bonds.

Department of Transportation — Harbors Division

On November 17, 2010, the State issued $164,300,000 and $37,110,000 of Harbors Revenue Bonds Series 2010A and Harbors Revenue Bonds Series 2010B, respectively. The Series 2010A Bonds were issued for the purpose of financing the cost of certain capital improvements to the State's Harbors System. The Series 2010B Bonds was issued to refund certain outstanding Harbor System Revenue Bonds.

15. RESTATEMENTS

Subsequent to the issuance of the State's fiscal year 2009 financial statements, management identified the following misstatements. As a result, June 30, 2009 net assets in the Proprietary Funds, Component Units, and Government Wide financial statements have been restated from amounts previously reported.

Proprietary Funds:

Management has restated the 2009 net assets of the Proprietary Fund of the EUTF to include certain activity related to capital assets, operating revenues and expenses and related assets and liabilities of the Trust Fund. Such amounts which primarily relate to Proprietary Fund activities of the EUTF had previously been included in the Fiduciary Fund. As a result, the June 30, 2009 net assets of Proprietary Funds were restated. The effect of this restatement is as follows (amounts expressed in thousands):

Statement of Revenues, Expenditures, and Changes in Net Assets

	Proprietary Funds (in thousands)	
	Nonmajor Proprietary Funds	Total Proprietary Funds
Net asset — June 30, 2009 — as previously reported	$ 437,214	$ 2,907,211
Adjustments:		
Prepaid expenses	13	13
Capital assets	2,636	2,636
Vouchers and contracts payable	(135)	(135)
Accrued wages and employees benefits payable	(193)	(193)
Compensated absences	(74)	(74)
Total adjustments	2,247	2,247
Net assets — June 30, 2009 — as restated	$ 439,461	$ 2,909,458

Component Units:

Management has restated the 2009 HCDA financial statements to correct for excess depreciation expense in the amount of $503,000 that had been recorded for land improvements whose useful lives ended as of June 30, 2008. As a result, net assets for the Components Units have been increased as of June 30, 2009. The effect of this restatement is as follows (amounts expressed in thousands):

Statement of Revenues, Expenditures, and Changes in Net Assets

	Component Units (in thousands)	
	Hawaii Community Development Authority	Total Component Units
Net assets — June 30, 2009	$ 183,537	$ 2,962,030
Adjustments	503	503
Net assets — June 30, 2009 as restated	$ 184,040	$ 2,962,533

The effect of these corrections on net assets of the Government-Wide financial statements is as follows (amounts expressed in thousands):

Statement of Activities

	Primary Government (in thousands)			
	Governmental Activities	Business-Type Activities	Total	Component Units
Net assets — June 30, 2009 — as previously reported	$ 3,467,632	$ 2,907,211	$ 6,374,843	$ 2,962,030
Adjustments:				
EUTF	-	2,247	2,247	-
HCDA	-	-	-	503
Total adjustments	-	2,247	2,247	503
Net assets — June 30, 2009 — as restated	$ 3,467,632	$ 2,909,458	$ 6,377,090	$ 2,962,533

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

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

STATE OF HAWAII

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,559,372	$ 2,350,845	$ 2,316,434	$ (34,411)
Net income tax:				
Corporations	70,469	50,103	59,186	9,083
Individuals	1,496,161	1,264,796	1,527,619	262,823
Inheritance and estate tax	-	-	-	-
Liquor permits and tax	45,973	49,446	44,074	(5,372)
Public service companies tax	143,775	124,519	157,661	33,142
Tobacco tax	94,278	94,253	85,503	(8,750)
Tax on premiums of insurance companies	92,500	99,000	104,667	5,667
Franchise tax (banks and other financial institutions)	14,401	24,318	18,666	(5,652)
Transient accommodations tax	12,253	38,174	31,696	(6,478)
Other taxes, primarily conveyances tax	8,504	12,460	17,918	5,458
Total taxes	4,537,686	4,107,914	4,363,424	255,510
Non-taxes:				
Interest and investment income	49,843	23,077	2,411	(20,666)
Charges for current services	217,477	216,887	187,212	(29,675)
Intergovernmental	4,727	4,223	5,852	1,629
Rentals	1,998	376	392	16
Fines, forfeitures, and penalties	24,339	24,248	23,304	(944)
Licenses and fees	1,006	1,044	1,430	386
Revenues from private sources	2,805	1,610	15,195	13,585
Debt service requirements	35,872	38,913	39,347	434
Other	174,946	177,915	173,132	(4,783)
Total non-taxes	513,013	488,293	448,275	(40,018)
Total revenues	5,050,699	4,596,207	4,811,699	215,492
EXPENDITURES:				
General government	1,841,925	1,876,264	1,661,461	214,803
Public safety	247,538	249,484	230,356	19,128
Highways	-	-	-	-
Conservation of natural resources	29,208	29,188	24,708	4,480
Health	408,742	408,742	382,987	25,755
Hospitals	96,761	96,761	96,761	-
Welfare	695,793	748,284	725,729	22,555
Lower education	1,453,081	1,453,017	1,301,270	151,747
Higher education	422,591	422,661	370,451	52,210
Other education	5,209	5,209	4,708	501
Culture and recreation	39,767	39,118	34,806	4,312
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	22,941	23,487	20,360	3,127
Housing	19,621	19,621	19,260	361
Social security and pension contributions	-	-	-	-
Other	-	9,985	5,797	4,188
Total expenditures	5,283,177	5,381,821	4,878,654	503,167
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(232,478)	(785,614)	(66,955)	718,659
OTHER FINANCING SOURCES — Transfers in	21,538	23,785	4,902	(18,883)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ (210,940)	$ (761,829)	$ (62,053)	$ 699,776

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, 2010
(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	971,641	971,641	965,634	(6,007)
Rentals	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	32,000	32,000	30,908	(1,092)
Total non-taxes	1,003,641	1,003,641	996,542	(7,099)
Total revenues	1,003,641	1,003,641	996,542	(7,099)
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	1,027,801	1,027,801	987,639	40,162
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	1,027,801	1,027,801	987,639	40,162
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (24,160)	$ (24,160)	$ 8,903	$ 33,063

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 2007 (Act 213, SLH of 2007) 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 2007 — 2009 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, 2010, 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

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2010
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2010, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and other sources over expenditures — actual (budgetary basis)	$ (66,955)	$ 8,903
Transfers	4,902	(5,051)
Excess of revenues and over expenditures — actual (budgetary basis)	(62,053)	3,852
Reserve for encumbrances at fiscal year end *	240,706	74,144
Expenditures for liquidation of prior fiscal year encumbrances	(234,950)	(59,282)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(8,231)	-
Tax refunds payable	(168,191)	-
Accrued liabilities	32,846	(159,292)
Accrued revenues	47,787	157,486
Net change in fund balance — GAAP basis	$ (152,086)	$ 16,908

* 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

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Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	$-	$1,579	$1,579	-%	$680	234.8%
July 1, 2009	-	2,484	2,484	-	683	363.7

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, 2010
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 78,044	$ 47,269	$ 67,626	$ 28,531	$ 70,005	$ 9,850	$ 14,721
RECEIVABLES:							
Accrued interest	2,468	353	543	9	257	242	226
Notes and loans — net	-	17,137	-	-	-	460	-
Federal government	-	-	-	64,960	-	-	-
Other - Net	26,417	-	-	-	-	-	-
DUE FROM OTHER FUNDS	-	-	-	-	-	-	-
INVESTMENTS	65,689	46,356	87,161	470	21,968	12,275	17,317
TOTAL	$ 172,618	$ 111,115	$ 155,330	$ 93,970	$ 92,230	$ 22,827	$ 32,264
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 20,068	$ 2,651	$ 23,148	$ 8,618	$ 16,695	$ 2,268	$ 503
Other accrued liabilities	3,352	2,183	3,556	317	11,860	1,032	-
Due to other funds	-	-	-	58,000	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	23,420	4,834	26,704	66,935	28,555	3,300	503
FUND BALANCES:							
Reserved for:							
Continuing appropriations	181,731	43,914	90,588	54,216	34,674	32,961	2,567
Receivables and advances	-	16,071	-	-	-	10	-
Unreserved for Special Revenue Funds:							
Designated for future expenditures	-	38,573	-	-	750	-	-
Undesignated	(32,533)	7,723	38,038	(27,181)	28,251	(13,444)	29,194
Total fund balances	149,198	106,281	128,626	27,035	63,675	19,527	31,761
TOTAL	$ 172,618	$ 111,115	$ 155,330	$ 93,970	$ 92,230	$ 22,827	$ 32,264

Special Revenue Funds						
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
$ 25,498	$ 99,273	$ 94,503	$ 31,285	$ 566,605	$ 382	$ 566,987
422	1,794	637	210	7,161	-	7,161
-	58,867	-	-	76,464	-	76,464
-	-	-	-	64,960	-	64,960
-	-	-	-	26,417		26,417
-	-	-	-	-	118	118
23,489	86,106	75,412	12,785	449,028	-	449,028
$ 49,409	$ 246,040	$ 170,552	$ 44,280	$ 1,190,635	$ 500	$ 1,191,135
$ 477	$ 6,860	$ 7,008	$ 9,423	$ 97,719	$ -	$ 97,719
2,086	713	2,633	1,233	28,965	-	28,965
-	-	-	1,567	59,567	-	59,567
-	-	-	-	-	382	382
2,563	7,573	9,641	12,223	186,251	382	186,633
1,785	68,782	30,794	37,678	579,690	68	579,758
-	59,002	-	-	75,083	-	75,083
-	36,105	27,596	-	103,024	-	103,024
45,061	74,578	102,521	(5,621)	246,587	50	246,637
46,846	238,467	160,911	32,057	1,004,384	118	1,004,502
$ 49,409	$ 246,040	$ 170,552	$ 44,280	$ 1,190,635	$ 500	$ 1,191,135

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	12,228	1,570	-	-	-	449
Transient accommodations tax	-	1,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	18,032	-	-	-	-
Liquid fuel tax	81,027	244	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	53,514	-	5,145	-	-	-	-
Rental motor/tour vehicle surcharge tax	40,401	-	-	-	-	-	-
Total taxes	174,942	13,472	24,747	-	-	-	449
Interest and investment income	18,173	6,509	8,163	63	1,886	1,907	1,735
Charges for current services	2,280	22,115	60,021	228	34,284	4,246	18,704
Intergovernmental	184,539	19,605	136,672	663,500	233,222	19,633	52,504
Rentals	-	3,703	-	-	312	1,934	-
Fines, forfeitures, and penalties	1,679	239	2,385	-	-	-	757
Licenses and fees	1,755	424	917	116	712	-	-
Revenues from private sources	-	59	38,105	30	276	-	-
Other	25,720	2,484	4,302	1,191	16,119	142	4,616
Total revenues	409,088	68,610	275,312	665,128	286,811	27,862	78,765
EXPENDITURES —							
Current:							
General government	-	3,361	180	-	-	-	-
Public safety	-	4,377	-	-	-	-	938
Conservation of natural resources	-	48,342	-	-	-	-	-
Health	-	-	244,378	-	-	-	-
Welfare	-	-	-	621,034	-	-	-
Lower education	-	-	-	-	363,828	-	-
Other education	-	-	-	8,938	-	-	-
Culture and recreation	-	7,049	-	-	2,638	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Economic development and assistance	-	2,215	-	597	-	29,761	68,473
Other	-	62	-	-	-	-	-
Highways	245,321	93	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	245,321	65,499	244,558	630,569	366,466	29,761	69,411
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	163,767	3,111	30,754	34,559	(79,655)	(1,899)	9,354
OTHER FINANCING SOURCES (USES):							
Issuance of GO Refunding Bonds — Par	-	-	-	-	-	-	-
Issuance of GO Refunding Bonds — Premium	-	-	-	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	-	-	-	-
Transfers in	52	2,270	2,042	4,831	50,965	-	52
Transfers out	(197,059)	(3,963)	(21,796)	(12,208)	-	(96)	(553)
Total other financing (uses) sources	(197,007)	(1,693)	(19,754)	(7,377)	50,965	(96)	(501)
NET CHANGE IN FUND BALANCES	(33,240)	1,418	11,000	27,182	(28,690)	(1,995)	8,853
FUND BALANCES — Beginning of year	182,438	104,863	117,626	(147)	92,365	21,522	22,908
FUND BALANCES — End of year	$ 149,198	$ 106,281	$ 128,626	$ 27,035	$ 63,675	$ 19,527	$ 31,761

Special Revenue Funds						Total
	Hawaiian	Administrative	All		Debt Service	Nonmajor Governmental
Regulatory	Programs	Support	Other	Total	Fund	Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ 2,000
-	-	-	-	14,247	-	14,247
-	-	-	-	1,000	-	1,000
-	-	1,988	-	20,020	-	20,020
-	-	-	1,509	82,780	-	82,780
1,181	-	-	-	1,181	-	1,181
	-	-	-	58,659	-	58,659
-	-	-	-	40,401	-	40,401
3,181	-	1,988	1,509	220,288	-	220,288
2,932	16,168	4,489	1,242	63,267	-	63,267
14,619	3,862	73,767	19,678	253,804	-	253,804
-	11,198	99,263	49,300	1,469,436	-	1,469,436
-	10,952	954	1,465	19,320	-	19,320
4,982	2	294	2,340	12,678	-	12,678
10,453	-	20,402	432	35,211	-	35,211
-	3,000	1,155	30	42,655	-	42,655
3,556	21,426	1,341	14,840	95,737	-	95,737
39,723	66,608	203,653	90,836	2,212,396	-	2,212,396
-	-	60,661	11,536	75,738	-	75,738
34,435	-	37,601	70,952	148,303	-	148,303
-	-	27	-	48,369	-	48,369
-	-	-	-	244,378	-	244,378
-	-	13,432	394	634,860	-	634,860
-	-	5,779	-	369,607	-	369,607
-	-	-	-	8,938	-	8,938
-	-	11,196	10,995	31,878	-	31,878
-	94,895	-	-	94,895	-	94,895
-	2,755	105	-	103,906	-	103,906
-	-	4,244	154	4,460	-	4,460
-	307	-	-	245,721	-	245,721
-	-	-	-	-	428,175	428,175
34,435	97,957	133,045	94,031	2,011,053	428,175	2,439,228
5,288	(31,349)	70,608	(3,195)	201,343	(428,175)	(226,832)
-	-	-	-	-	515,305	515,305
-	-	-	-	-	55,993	55,993
-	-	-	-	-	(571,297)	(571,297)
2,171	30,169	14,176	6,249	112,977	428,224	541,201
(2,560)	(3,129)	(60,008)	(2,045)	(303,417)	-	(303,417)
(389)	27,040	(45,832)	4,204	(190,440)	428,225	237,785
4,899	(4,309)	24,776	1,009	10,903	50	10,953
41,947	242,776	136,135	31,048	993,481	68	993,549
$ 46,846	$ 238,467	$ 160,911	$ 32,057	$ 1,004,384	$ 118	$ 1,004,502

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, 2010
(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	89,208	81,027	(8,181)	230	244	14
Boating	-	-	-	-	-	-
Vehicle registration fee tax	21,688	20,577	(1,111)	-	-	-
State vehicle weight tax	34,865	32,937	(1,928)	-	-	-
Rental/tour vehicle surcharge tax	51,184	40,401	(10,783)	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	10,660	12,228	1,568
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	196,945	174,942	(22,003)	11,890	13,472	1,582
Non-taxes:						
Interest and investment income	12,500	5,029	(7,471)	2,346	1,500	(846)
Charges for current services	30,148	2,280	(27,868)	21,497	22,065	568
Intergovernmental	110,693	40,094	(70,599)	10,876	19,605	8,729
Rentals	-	-	-	2,686	3,703	1,017
Fines, forfeitures, and penalties	1,270	1,679	409	156	239	83
Licenses and fees	2,066	1,755	(311)	523	424	(99)
Revenues from private sources	-	-	-	-	59	59
Other	37	40,642	40,605	3,292	3,597	305
Total non-taxes	156,714	91,479	(65,235)	41,376	51,192	9,816
Total revenues	353,659	266,421	(87,238)	53,266	64,664	11,398
EXPENDITURES:						
General government	-	-	-	4,318	3,518	800
Public safety	-	-	-	5,548	2,983	2,565
Highways	310,941	252,498	58,443	-	-	-
Conservation of natural resources	-	-	-	76,471	50,612	25,859
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	12,418	7,862	4,556
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	10,150	4,112	6,038
Other	-	-	-	-	-	-
Total expenditures	310,941	252,498	58,443	108,905	69,087	39,818
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 42,718	$ 13,923	$ (28,795)	$ (55,639)	$ (4,423)	$ 51,216

Health			Education		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
5,245	5,145	(100)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
12,189	18,032	5,843	-	-	-
-	-	-	-	-	-
1,800	1,570	(230)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
19,234	24,747	5,513	-	-	-
2,515	1,435	(1,080)	254	377	123
90,285	89,892	(393)	31,555	34,284	2,729
101,123	136,672	35,549	187,335	233,222	45,887
-	-	-	38	312	274
1,097	2,385	1,288	-	-	-
828	917	89	732	712	(20)
57,015	38,105	(18,910)	400	276	(124)
4	5,669	5,665	46,720	17,792	(28,928)
252,867	275,075	22,208	267,034	286,975	19,941
272,101	299,822	27,721	267,034	286,975	19,941
205	182	23	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
532,604	348,962	183,642	-	-	-
-	-	-	-	-	-
-	-	-	602,261	355,445	246,816
-	-	-	-	-	-
-	-	-	4,490	3,010	1,480
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
532,809	349,144	183,665	606,751	358,455	248,296
$(260,708)	$ (49,322)	$ 211,386	$(339,717)	$ (71,480)	$ 268,237

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, 2010
(Amounts in thousands)

	Human Services			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (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	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	-	-	-
Non-taxes:						
Interest and investment income	-	12	12	388	344	(44)
Charges for current services	-	228	228	7,377	4,246	(3,131)
Intergovernmental	222,114	253,541	31,427	15,757	19,633	3,876
Rentals	-	-	-	3,277	1,934	(1,343)
Fines, forfeitures, and penalties	-	-	-	-	-	-
Licenses and fees	406	116	(290)	-	-	-
Revenues from private sources	-	30	30	275	-	(275)
Other	-	970	970	13	593	580
Total non-taxes	222,520	254,897	32,377	27,087	26,750	(337)
Total revenues	222,520	254,897	32,377	27,087	26,750	(337)
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	361,163	273,523	87,640	-	-	-
Lower education	-	-	-	-	-	-
Other education	16,114	8,370	7,744	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	2,376	607	1,769	126,263	45,347	80,916
Other	-	-	-	-	-	-
Total expenditures	379,653	282,500	97,153	127,363	45,347	82,016
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (157,133)	$ (27,603)	$ 129,530	$ (100,276)	$ (18,597)	$ 81,679

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
440	449	9	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,750	1,181	(569)
440	449	9	3,750	3,181	(569)
1,090	302	(788)	980	601	(379)
14,000	18,704	4,704	19,041	14,619	(4,422)
35,978	56,794	20,816	-	-	-
-	-	-	-	-	-
100	757	657	885	4,982	4,097
-	-	-	12,777	10,453	(2,324)
-	-	-	-	-	-
6	2,223	2,217	2,706	5,727	3,021
51,174	78,780	27,606	36,389	36,382	(7)
51,614	79,229	27,615	40,139	39,563	(576)
-	-	-	-	-	-
2,337	993	1,344	47,723	35,448	12,275
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
144,300	71,087	73,213	-	-	-
-	-	-	-	-	-
146,637	72,080	74,557	47,723	35,448	12,275
$ (95,023)	$ 7,149	$102,172	$ (7,584)	$ 4,115	$ 11,699

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, 2010
(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	-	-	-	1,532	1,988	456
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,532	1,988	456
Non-taxes:						
Interest and investment income	1,010	429	(581)	2,322	847	(1,475)
Charges for current services	1	153	152	48,822	79,947	31,125
Intergovernmental	8,432	10,688	2,256	16,901	99,263	82,362
Rentals	8,239	10,672	2,433	6,235	5,511	(724)
Fines, forfeitures, and penalties	-	2	2	282	294	12
Licenses and fees	-	-	-	17,530	20,402	2,872
Revenues from private sources	-	3,000	3,000	1,350	1,155	(195)
Other	4,660	20,275	15,615	19,539	10,139	(9,400)
Total non-taxes	22,342	45,219	22,877	112,981	217,558	104,577
Total revenues	22,342	45,219	22,877	114,513	219,546	105,033
EXPENDITURES:						
General government	-	-	-	73,439	37,349	36,090
Public safety	-	-	-	27,999	17,927	10,072
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	1,286	974	312
Health	-	-	-	50	-	50
Welfare	-	-	-	20,281	14,624	5,657
Lower education	-	-	-	7,000	5,390	1,610
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	15,119	13,183	1,936
Urban redevelopment and housing	43,831	24,710	19,121	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	-	-	-	17,150	4,603	12,547
Total expenditures	43,831	24,710	19,121	162,324	94,050	68,274
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (21,489)	$ 20,509	$ 41,998	$ (47,811)	$ 125,496	$173,307

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)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	89,438	81,271	(8,167)
1,300	1,509	209	1,300	1,509	209
-	-	-	26,933	25,722	(1,211)
-	-	-	34,865	32,937	(1,928)
-	-	-	51,184	40,401	(10,783)
-	-	-	440	449	9
-	-	-	13,721	20,020	6,299
-	-	-	10,660	12,228	1,568
-	-	-	1,800	1,570	(230)
-	-	-	1,000	1,000	-
-	-	-	2,000	2,000	-
-	-	-	1,750	1,181	(569)
1,300	1,509	209	235,091	220,288	(14,803)
617	275	(342)	24,022	11,151	(12,871)
15,542	19,677	4,135	278,268	286,095	7,827
23,009	49,299	26,290	732,218	918,811	186,593
2,000	1,466	(534)	22,475	23,598	1,123
2,376	2,341	(35)	6,166	12,679	6,513
635	430	(205)	35,497	35,209	(288)
85	30	(55)	59,125	42,655	(16,470)
7,835	16,236	8,401	84,812	123,863	39,051
52,099	89,754	37,655	1,242,583	1,454,061	211,478
53,399	91,263	37,864	1,477,674	1,674,349	196,675
20,699	16,635	4,064	98,661	57,684	40,977
131,144	69,036	62,108	215,851	126,387	89,464
-	-	-	310,941	252,498	58,443
-	-	-	77,757	51,586	26,171
-	-	-	532,654	348,962	183,692
550	367	183	381,994	288,514	93,480
-	-	-	609,262	360,835	248,427
-	-	-	16,114	8,370	7,744
18,281	11,346	6,935	50,308	35,401	14,907
-	-	-	43,831	24,710	19,121
-	-	-	283,089	121,153	161,936
-	-	-	17,150	4,603	12,547
170,674	97,384	73,290	2,637,612	1,680,703	956,909
$ (117,275)	$ (6,121)	$ 111,154	$ (1,159,938)	$ (6,354)	$ 1,153,584

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2010
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$	(6,354)
RESERVE FOR ENCUMBRANCES AT YEAR-END*		376,647
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES		(263,372)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS		(6,509)
TRANSFERS		58,047
ACCRUED LIABILITIES		(330,813)
ACCRUED REVENUES		399,186
EXCESS OF REVENUES OVER EXPENDITURES — GAAP basis	$	226,832

* 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, 2010
(Amounts in thousands)

ASSETS	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CURRENT ASSETS:				
Cash and cash equivalents	$ -	$ 94,642	$ 29,891	$ 124,533
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $403)	328	1,966	347	2,641
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	24,938	4,406	29,344
Other	13,265	420	741	14,426
Premiums	23,057	-	-	23,057
Prepaid expenses and other assets	181	-	-	181
Total current assets	36,831	121,966	35,385	194,182
CAPITAL ASSETS				
Equipment	13,638	-	1,095	14,733
	13,638	-	1,095	14,733
Less accumulated depreciation	(4,980)	-	(892)	(5,872)
Net capital assets	8,658	-	203	8,861
Promissory note receivable	-	285,367	77,622	362,989
Total noncurrent assets	8,658	285,367	77,825	371,850
TOTAL	$ 45,489	$ 407,333	$ 113,210	$ 566,032

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010
(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	$ 108	$ 125	$ 137	$ 370
Other accrued liabilities	975	-	-	975
Accrued vacation, current portion	36	-	-	36
Benefits Claims Payable	38,334	-	-	38,334
Premiums payable	10,281	-	-	10,281
Total current liabilities	49,734	125	137	49,996
NONCURRENT LIABILITIES:				
Accrued vacation	137	213	42	392
Other postemployment benefit liability	544	392	113	1,049
TOTAL	50,415	730	292	51,437
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	8,658	-	203	8,861
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	406,603	112,715	519,318
UNRESTRICTED	(13,584)	-	-	(13,584)
TOTAL NET ASSETS	$ (4,926)	$ 406,603	$ 112,918	$ 514,595

(Concluded)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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	$ 5,117	$ 1,761	$ 2,095	$ 8,973
Premium revenue - self insurance	253,295	-	-	253,295
Other	3,616	3,205	262	7,083
Total operating revenues	262,028	4,966	2,357	269,351
OPERATING EXPENSES:				
Personnel services	1,669	-	-	1,669
Depreciation	914	-	69	983
Repairs and maintenance	32	-	-	32
General administration	2,630	1,554	950	5,134
Claims	248,281	-	-	248,281
Other	106	-	-	106
Total operating expenses	253,632	1,554	1,019	256,205
Operating income	8,396	3,412	1,338	13,146
NONOPERATING REVENUES:				
Interest and investment income	2,150	9,762	1,507	13,419
Other	2,198	-	-	2,198
Total nonoperating revenues	4,348	9,762	1,507	15,617
INCOME BEFORE CAPITAL CONTRIBUTIONS	12,744	13,174	2,845	28,763
CAPITAL CONTRIBUTIONS:				
Federal	-	17,455	26,241	43,696
State	-	1,045	1,630	2,675
	-	18,500	27,871	46,371
CHANGE IN NET ASSETS	12,744	31,674	30,716	75,134
NET ASSETS — Beginning of year as previously reported	(19,917)	374,929	82,202	437,214
Adjustment (Note 15)	2,247	-	-	2,247
NET ASSETS — Beginning of year after restatement	(17,670)	374,929	82,202	439,461
NET ASSETS — End of year	$ (4,926)	$ 406,603	$ 112,918	$ 514,595

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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	$ 253,145	$ -	$ -	$ 253,145
Cash paid to suppliers	(3,044)	(117)	(501)	(3,662)
Cash paid to employees	(1,510)	(1,328)	(397)	(3,235)
Cash paid for premiums and benefit payments	(252,158)	-	-	(252,158)
Cash paid to other state agencies for services rendered	-	-	(41)	(41)
Rebates received for premium deposit for self-funded plans	1,234	-	-	1,234
Reserves returned by insurance carriers	854	-	-	854
Interest income from notes receivable	-	3,230	247	3,477
Administrative loan fees	-	1,741	1,966	3,707
Principal repayments on notes receivable	-	21,999	3,747	25,746
Disbursement of notes receivable proceeds	-	(66,569)	(18,338)	(84,907)
Net cash used in operating activities	(1,479)	(41,044)	(13,317)	(55,840)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State capital contributions	-	1,045	1,630	2,675
Proceeds from federal operating grants	-	17,455	26,181	43,636
Disbursement of federal operating grant	-	(12,777)	(10,916)	(23,693)
Other	2,200	-	-	2,200
Net cash provided by noncapital financing activities	2,200	5,723	16,895	24,818
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITY — Acquisition and construction of capital assets	(3,018)	-	-	(3,018)
CASH FLOWS FROM INVESTING ACTIVITIES — Interest from investments	2,297	9,795	1,450	13,542
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	-	(25,526)	5,028	(20,498)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	-	120,168	24,863	145,031
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ -	$ 94,642	$ 29,891	$ 124,533

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(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 USED IN OPERATING ACTIVITIES:				
Operating income	$ 8,396	$ 3,412	$ 1,338	$ 13,146
Adjustments to reconcile operating income to net cash used in operating activities:				
Depreciation	914	-	69	983
Premium reserves held by insurance companies	854	-	-	854
Increase in assets:				
Receivables	(2,988)	(44,564)	(14,734)	(62,286)
Deposits	(2,201)	-	-	(2,201)
Prepaid expenses	(148)	-	-	(148)
Increase (decrease) in liabilities:				
Vouchers and contracts payable	(230)	8	(18)	(240)
Other accrued liabilities	1,583	100	28	1,711
Benefit claims payable	(7,659)	-	-	(7,659)
Net cash used in operating activities	$ (1,479)	$ (41,044)	$ (13,317)	$ (55,840)

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2010
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Total Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 13,304	$ 292,694	$ 25,107	$ 331,105
RECEIVABLES — Taxes	-	-	7,587	7,587
DUE FROM INDIVIDUALS, BUSINESSES, AND COUNTIES	26,336	27,713	-	54,049
DEPOSITS AND OTHER ASSETS — Trust	-	13,634	-	13,634
INVESTMENTS	10,884	33,762	28,484	73,130
TOTAL	$ 50,524	$ 367,803	$ 61,178	$ 479,505
LIABILITIES				
VOUCHERS PAYABLE	$ 50,524	$ 98	$ 241	$ 50,863
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	367,705	60,937	428,642
Total liabilities	$ 50,524	$ 367,803	$ 61,178	$ 479,505

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Balance — July 1, 2009 (As Restated)	Additions	Deductions	Balance — June 30, 2010
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 24,889	$ 6,056,385	$ (6,067,970)	$ 13,304
Investments	28,066	10,884	(28,066)	10,884
Due from individuals, businesses, and counties	24,172	6,058,549	(6,056,385)	26,336
Total assets	$ 77,127	$ 12,125,818	$ (12,152,421)	$ 50,524
Liabilities:				
Vouchers payable	$ 61,111	$ 50,524	$ (61,111)	$ 50,524
Due to individuals, businesses, and counties	16,016	-	(16,016)	-
Total liabilities	$ 77,127	$ 50,524	$ (77,127)	$ 50,524
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 215,625	$ 3,922,581	$ (3,845,512)	$ 292,694
Due from individuals, businesses, and counties	37,133	368,501	(364,287)	41,347
Investments	30,569	33,762	(30,569)	33,762
Capital Assets	-	-	-	-
Total assets	$ 283,327	$ 4,324,844	$ (4,240,368)	$ 367,803
Liabilities:				
Vouchers payable	$ 35	$ 98	$ (35)	$ 98
Due to individuals, businesses, and counties	283,292	4,088,122	(4,003,709)	367,705
Total liabilities	$ 283,327	$ 4,088,220	$ (4,003,744)	$ 367,803
OTHER:				
Assets:				
Cash and cash equivalents	$ 24,869	$ 20,590	$ (20,352)	$ 25,107
Receivables	8,331	7,587	(8,331)	7,587
Investments	35,879	28,482	(35,877)	28,484
Total assets	$ 69,079	$ 56,659	$ (64,560)	$ 61,178
Liabilities:				
Vouchers payable	$ 162	$ 241	$ (162)	$ 241
Due to individuals, businesses, and counties	68,917	19,846	(27,826)	60,937
Total liabilities	$ 69,079	$ 20,087	$ (27,988)	$ 61,178
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 265,383	$ 9,999,556	$ (9,933,834)	$ 331,105
Receivables	8,331	7,587	(8,331)	7,587
Due from individuals, businesses, and counties	61,305	6,427,050	(6,420,672)	67,683
Investments	94,514	73,128	(94,512)	73,130
Total assets	$ 429,533	$ 16,507,321	$ (16,457,349)	$ 479,505
Liabilities:				
Vouchers payable	$ 61,308	$ 50,863	$ (61,308)	$ 50,863
Due to individuals, businesses, and counties	368,225	4,107,968	(4,047,551)	428,642
Total liabilities	$ 429,533	$ 4,158,831	$ (4,108,859)	$ 479,505

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APPENDIX C

EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII

ARTICLE VII

TAXATION AND FINANCE

LAPSING OF APPROPRIATIONS

Section 11. All appropriations for which the source is general obligation bond funds or general funds shall be for specified periods. No such appropriation shall be made for a period exceeding three years; provided that appropriations from the state educational facilities improvement special fund may be made for periods exceeding three years to allow for construction or acquisition of public school facilities. Any such appropriation or any portion of any such appropriation that is unencumbered at the close of the fiscal period for which the appropriation is made shall lapse; provided that no appropriation for which the source is general obligation bond funds nor any portion of any such appropriation shall lapse if the legislature determines that the appropriation or any portion of the appropriation is necessary to qualify for federal aid financing and reimbursement. Where general obligation bonds have been authorized for an appropriation, the amount of the bond authorization shall be reduced in an amount equal to the amount lapsed.

DEFINITIONS; ISSUANCE OF INDEBTEDNESS

Section 12. For the purposes of this article:

1. The term “bonds” shall include bonds, notes and other instruments of indebtedness.

2. The term “general obligation bonds” means all bonds for the payment of the principal and interest of which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, includes reimbursable general obligation bonds.

3. The term “net revenues” or “net user tax receipts” means the revenues or receipts derived from:

   a. A public undertaking, improvement or system remaining after the costs of operation, maintenance and repair of the public undertaking, improvement or system, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made; or

   b. Any payments or return on security under a loan program or a loan thereunder, after the costs of operation and administration of the loan program, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made.

4. The term “person” means an individual, firm, partnership, corporation, association, cooperative or other legal entity, governmental body or agency, board, bureau or other instrumentality thereof, or any combination of the foregoing.

5. The term “rates, rentals and charges” means all revenues and other moneys derived from the operation or lease of a public undertaking, improvement or system, or derived from any payments or return on security under a loan program or a loan thereunder; provided that insurance premium payments, assessments and surcharges, shall constitute rates, rentals and charges of a state property insurance program.

6. The term “reimbursable general obligation bonds” means general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the general fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political

subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the general fund is required by law to be made from the revenue of the political subdivision.

7. The term “revenue bonds” means all bonds payable from the revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law, including a loan program to provide loans to a state property insurance program providing hurricane insurance coverage to the general public.

8. The term “special purpose revenue bonds” means all bonds payable from rental or other payments made to an issuer by a person pursuant to contract and secured as may be provided by law.

9. The term “user tax’ means a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from the consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking, improvement or system; provided that mortgage recording taxes shall constitute user taxes of a state property insurance program.

The legislature, by a majority vote of the members to which each house is entitled, shall authorize the issuance of all general obligation bonds, bonds issued under special improvement statutes and revenue bonds issued by or on behalf of the State and shall prescribe by general law the manner and procedure for such issuance. The legislature by general law shall authorize political subdivisions to issue general obligation bonds, bonds issued under special improvement statutes and revenue bonds and shall prescribe the manner and procedure for such issuance. All such bonds issued by or on behalf of a political subdivision shall be authorized by the governing body of such political subdivision.

Special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist:

1. Manufacturing, processing or industrial enterprises;

2. Utilities serving the general public;

3. Health care facilities provided to the general public by not for profit corporations;

4. Early childhood education and care facilities provided to the general public by not for profit corporations;

5. Low and moderate income government housing programs;

6. Not for profit private nonsectarian and sectarian elementary schools, secondary schools, colleges and universities; or

7. Agricultural enterprises serving important agricultural lands,

each of which is hereinafter referred to in this paragraph as a special purpose entity.

The legislature, by a two-thirds vote of the members to which each house is entitled, may enact enabling legislation for the issuance of special purpose revenue bonds separately for each special purpose entity, and, by a two-thirds vote of the members to which each house is entitled and by separate legislative bill, may authorize the State to issue special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the legislature; and provided further that the State may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds to assist not-for-profit private nonsectarian and sectarian elementary schools, secondary schools, colleges, and universities, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. The legislature may enact enabling legislation to authorize political subdivisions to issue special purpose revenue bonds.

If so authorized, a political subdivision by a two-thirds vote of the members to which its governing body is entitled and by separate ordinance may authorize the issuance of special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the governing body of the political subdivision. No special purpose revenue bonds shall be secured directly or indirectly by the general credit of the issuer or by any revenues or taxes of the issuer other than receipts derived from payments by a person or persons under contract or from any security for such contract or contracts or special purpose revenue bonds and no moneys other than such receipts shall be applied to the payment thereof. The governor shall provide the legislature in November of each year with a report on the cumulative amount of all special purpose revenue bonds authorized and issued, and such other information as may be necessary.

DEBT LIMIT; EXCLUSIONS

Section 13. General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed: a sum equal to twenty percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance until June 30, 1982; and thereafter, a sum equal to eighteen and one-half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance. Effective July 1, 1980, the legislature shall include a declaration of findings in every general law authorizing the issuance of general obligation bonds that the total amount of principal and interest, estimated for such bonds and for all bonds authorized and unissued and calculated for all bonds issued and outstanding, will not cause the debt limit to be exceeded at the time of issuance. Any bond issue by or on behalf of the State may exceed the debt limit if an emergency condition is declared to exist by the governor and concurred to by a two-thirds vote of the members to which each house of the legislature is entitled. For the purpose of this paragraph, general fund revenues of the State shall not include moneys received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded as permitted by this section.

A sum equal to fifteen percent of the total of the assessed values for tax rate purposes of real property in each political subdivision, as determined by the last tax assessment rolls pursuant to law, is established as the limit of the funded debt of such political subdivision that is outstanding and unpaid at any time.

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

In determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision under section 12, the following shall be excluded:

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

2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and interest on all revenue bonds issued for the public undertaking, improvement or system or loan

program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and to apply the same to such payments in the amount necessary therefor.

3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.

4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.

5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year.

7. Reimbursable general obligation bonds issued by the State for any political subdivision, whether issued before or after the effective date of this section, but only for as long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after the effective date of this section, the consent of the governing body of the political subdivision has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such political subdivision.

8. Bonds constituting instruments of indebtedness under which the State or any political subdivision incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under this section; provided that the State or political subdivision shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State or political subdivision as provided by law.

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

The total outstanding indebtedness of the State or funded debt of any political subdivision and the exclusions therefrom permitted by this section shall be made annually and certified by law or as provided by law. For the purposes of section 12 and this section, amounts received from on-street parking may be considered and treated as revenues of a parking undertaking.

Nothing in section 12 or in this section shall prevent the refunding of any bond at any time.

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APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII

as of October 1, 2011

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
March 1, 1992	$100,000,000, Series BW, non-callable	6.250%	March 1, 2012	@	$5,555,000.00	$ 5,555,000.00
October 1, 1992	$200,000,000 Series BZ, non-callable	6.000%	October 1, 2012	@	1,535,000.00	$ 1,535,000.00
January 1, 1993	$90,000,000 Series CA, non-callable	5.500%	January 1, 2012	@	5,000,000.00	
		8.000%	January 1, 2013	@	5,000,000.00	$ 10,000,000.00
November 1, 1993	$250,000,000, Series CH, non-callable	4.750%	November 1, 2011-2013	@	13,885,000.00	$ 41,655,000.00
December 1, 1996	$150,000,000, Series CM, non-callable	6.000%	December 1, 2012	@	8,330,000.00	
		6.500%	December 1, 2013-2016	@	8,330,000.00	$ 41,650,000.00
August 1, 2001	$300,000,000, Series CV, callable	4.800%	August 1, 2016	@	250,000.00	
		5.375%	August 1, 2016	@	6,860,000.00	
		5.125%	August 1, 2017	@	7,495,000.00	
		5.375%	August 1, 2018	@	7,900,000.00	
		4.900%	August 1, 2019	@	845,000.00	
		5.375%	August 1, 2019	@	7,485,000.00	
		5.000%	August 1, 2020	@	8,770,000.00	
		5.000%	August 1, 2021	@	5,590,000.00	
		5.250%	August 1, 2021	@	7,255,000.00	$ 52,450,000.00
August 1, 2001	$156,750,000, Series CW, callable	4.400%	August 1, 2012	@	760,000.00	
	(refunding)	5.375%	August 1, 2012	@	10,480,000.00	
		4.500%	August 1, 2013	@	1,220,000.00	
		5.375%	August 1, 2013	@	10,635,000.00	
		4.600%	August 1, 2014	@	165,000.00	
		5.375%	August 1, 2014	@	17,050,000.00	
		4.700%	August 1, 2015	@	720,000.00	
		5.375%	August 1, 2015	@	12,475,000.00	$ 53,505,000.00
February 27, 2002	$250,000,000, Series CX, callable	4.300%	February 1, 2012	@	6,135,000.00	
		5.250%	February 1, 2012	@	7,165,000.00	
		4.750%	February 1, 2016	@	410,000.00	
		5.500%	February 1, 2016	@	9,055,000.00	
		4.800%	February 1, 2017	@	725,000.00	
		5.500%	February 1, 2017	@	9,255,000.00	
		5.000%	February 1, 2018	@	10,520,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.000%	February 1, 2019	@	11,045,000.00	
		5.100%	February 1, 2020	@	11,595,000.00	
		5.500%	February 1, 2021	@	12,190,000.00	
		5.125%	February 1, 2022	@	12,860,000.00	$ 90,955,000.00
February 27, 2002	$319,290,000, Series CY, non-callable refunding	5.500%	February 1, 2012	@	36,895,000.00	
		5.750%	February 1, 2013	@	38,920,000.00	
		5.750%	February 1, 2014	@	41,160,000.00	
		5.750%	February 1, 2015	@	43,525,000.00	$ 160,500,000.00
November 26, 2002	$300,000,000, Series CZ, callable	3.600%	July 1, 2012	@	3,510,000.00	
		5.250%	July 1, 2012	@	12,405,000.00	
		3.750%	July 1, 2013	@	1,945,000.00	
		3.900%	July 1, 2014	@	1,360,000.00	
		5.500%	July 1, 2014	@	1,520,000.00	
		4.000%	July 1, 2015	@	2,305,000.00	
		4.125%	July 1, 2016	@	210,000.00	
		5.250%	July 1, 2016	@	3,705,000.00	
		4.250%	July 1, 2017	@	375,000.00	
		4.300%	July 1, 2018	@	60,000.00	
		5.250%	July 1, 2018	@	8,205,000.00	
		4.500%	July 1, 2020	@	1,160,000.00	
		4.800%	July 1, 2022	@	8,370,000.00	$ 45,130,000.00
September 16, 2003	$225,000,000 Series DA, callable	3.900%	September 1, 2012	@	830,000.00	
		4.000%	September 1, 2012	@	10,110,000.00	
		4.250%	September 1, 2012	@	550,000.00	
		4.000%	September 1, 2013	@	11,955,000.00	
		4.200%	September 1, 2014	@	4,355,000.00	
		4.300%	September 1, 2015	@	1,475,000.00	
		5.250%	September 1, 2015	@	11,670,000.00	
		4.400%	September 1, 2016	@	10,000.00	
		5.250%	September 1, 2016	@	13,835,000.00	
		4.500%	September 1, 2017	@	350,000.00	
		5.250%	September 1, 2017	@	7,125,000.00	
		4.600%	September 1, 2018	@	1,240,000.00	
		5.250%	September 1, 2018	@	14,135,000.00	
		5.250%	September 1, 2019	@	16,195,000.00	
		4.750%	September 1, 2020	@	35,000.00	
		5.250%	September 1, 2020	@	17,035,000.00	
		4.800%	September 1, 2021	@	500,000.00	
		5.250%	September 1, 2021	@	17,490,000.00	
		4.900%	September 1, 2022	@	250,000.00	
		5.250%	September 1, 2022	@	18,710,000.00	
		4.900%	September 1, 2023	@	4,675,000.00	
		5.250%	September 1, 2023	@	15,295,000.00	$ 167,825,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
September 16, 2003	$188,650,000, Series DB, callable	5.000%	September 1, 2012	@	16,120,000.00	
		4.250%	September 1, 2013	@	3,380,000.00	
		5.250%	September 1, 2013	@	18,435,000.00	
		4.000%	September 1, 2014	@	5,000,000.00	
		5.250%	September 1, 2014	@	15,145,000.00	
		5.250%	September 1, 2015	@	24,150,000.00	
		5.250%	September 1, 2016	@	25,450,000.00	$ 107,680,000.00
May 13, 2004	$225,000,000, Series DD, callable	3.700%	May 1, 2012	@	195,000.00	
		5.000%	May 1, 2012	@	25,000.00	
		3.800%	May 1, 2013	@	1,090,000.00	
		5.000%	May 1, 2013	@	10,465,000.00	
		4.000%	May 1, 2014	@	4,060,000.00	
		5.250%	May 1, 2014	@	8,055,000.00	
		4.125%	May 1, 2015	@	2,295,000.00	
		5.250%	May 1, 2015	@	10,410,000.00	
		4.200%	May 1, 2016	@	790,000.00	
		5.000%	May 1, 2016	@	7,725,000.00	
		4.250%	May 1, 2017	@	575,000.00	
		5.000%	May 1, 2017	@	13,430,000.00	
		4.300%	May 1, 2018	@	460,000.00	
		5.000%	May 1, 2018	@	5,230,000.00	
		4.400%	May 1, 2019	@	610,000.00	
		5.000%	May 1, 2019	@	14,825,000.00	
		4.500%	May 1, 2020	@	250,000.00	
		5.000%	May 1, 2020	@	15,950,000.00	
		5.000%	May 1, 2021	@	17,010,000.00	
		5.250%	May 1, 2022	@	17,860,000.00	
		4.750%	May 1, 2023	@	1,150,000.00	
		5.250%	May 1, 2023	@	17,645,000.00	
		4.800%	May 1, 2024	@	2,045,000.00	
		5.250%	May 1, 2024	@	17,735,000.00	$ 169,885,000.00
November 10, 2004	$225,000,000 Series DE, callable	5.000%	October 1, 2012	@	8,250,000.00	
		3.250%	October 1, 2012	@	2,775,000.00	
		5.000%	October 1, 2013	@	10,610,000.00	
		3.375%	October 1, 2013	@	950,000.00	
		5.000%	October 1, 2014	@	7,420,000.00	
		3.500%	October 1, 2014	@	4,685,000.00	
		5.000%	October 1, 2015	@	11,665,000.00	
		3.600%	October 1, 2015	@	1,020,000.00	
		5.000%	October 1, 2016	@	11,600,000.00	
		3.625%	October 1, 2016	@	1,715,000.00	
		5.000%	October 1, 2017	@	13,855,000.00	
		3.750%	October 1, 2017	@	130,000.00	
		5.000%	October 1, 2018	@	14,380,000.00	
		3.800%	October 1, 2018	@	320,000.00	
		5.000%	October 1, 2019	@	13,955,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		3.875%	October 1, 2019	@	1,490,000.00	
		5.000%	October 1, 2020	@	15,435,000.00	
		4.000%	October 1, 2020	@	785,000.00	
		5.000%	October 1, 2021	@	16,675,000.00	
		4.000%	October 1, 2021	@	375,000.00	
		5.000%	October 1, 2022	@	14,360,000.00	
		4.125%	October 1, 2022	@	3,545,000.00	
		5.000%	October 1, 2023	@	17,270,000.00	
		4.200%	October 1, 2023	@	1,530,000.00	
		5.000%	October 1, 2024	@	12,565,000.00	
		4.300%	October 1, 2024	@	7,165,000.00	$ 194,525,000.00
June 15, 2005	$225,000,000, Series DF, callable	3.375%	July 1, 2012	@	2,165,000.00	
		5.000%	July 1, 2012	@	7,865,000.00	
		3.500%	July 1, 2013	@	1,855,000.00	
		5.000%	July 1, 2013	@	8,660,000.00	
		3.600%	July 1, 2014	@	955,000.00	
		5.000%	July 1, 2014	@	10,075,000.00	
		3.625%	July 1, 2015	@	1,800,000.00	
		5.000%	July 1, 2015	@	9,780,000.00	
		3.750%	July 1, 2016	@	60,000.00	
		5.000%	July 1, 2016	@	12,100,000.00	
		3.800%	July 1, 2017	@	25,000.00	
		5.000%	July 1, 2017	@	12,755,000.00	
		3.800%	July 1, 2018	@	25,000.00	
		5.000%	July 1, 2018	@	13,410,000.00	
		3.875%	July 1, 2019	@	70,000.00	
		5.000%	July 1, 2019	@	14,055,000.00	
		5.000%	July 1, 2020	@	14,850,000.00	
		3.875%	July 1, 2021	@	185,000.00	
		5.000%	July 1, 2021	@	15,425,000.00	
		4.000%	July 1, 2022	@	125,000.00	
		5.000%	July 1, 2022	@	16,285,000.00	
		5.000%	July 1, 2023	@	17,250,000.00	
		4.000%	July 1, 2024	@	270,000.00	
		5.000%	July 1, 2024	@	17,865,000.00	
		4.000%	July 1, 2025	@	2,900,000.00	
		5.000%	July 1, 2025	@	16,145,000.00	$ 196,955,000.00
June 15, 2005	$722,575,000, Series DG, callable	5.000%	July 1, 2012	@	75,735,000.00	
		5.000%	July 1, 2013	@	79,620,000.00	
		5.000%	July 1, 2014	@	83,705,000.00	
		5.000%	July 1, 2015	@	87,995,000.00	
		5.000%	July 1, 2016	@	92,510,000.00	
		5.000%	July 1, 2017	@	97,255,000.00	$ 516,820,000.00
March 23, 2006	$350,000,000, Series DI, callable	3.800%	March 1, 2013	@	4,170,000.00	
		4.000%	March 1, 2013	@	2,250,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.500%	March 1, 2013	@	9,340,000.00	
		3.900%	March 1, 2014	@	1,390,000.00	
		5.000%	March 1, 2014	@	15,130,000.00	
		3.900%	March 1, 2015	@	1,065,000.00	
		4.500%	March 1, 2015	@	4,000,000.00	
		5.000%	March 1, 2015	@	12,270,000.00	
		4.000%	March 1, 2016	@	7,135,000.00	
		5.000%	March 1, 2016	@	11,030,000.00	
		4.000%	March 1, 2017	@	1,705,000.00	
		5.000%	March 1, 2017	@	17,300,000.00	
		4.000%	March 1, 2018	@	885,000.00	
		5.000%	March 1, 2018	@	19,050,000.00	
		4.125%	March 1, 2019	@	235,000.00	
		5.000%	March 1, 2019	@	20,690,000.00	
		4.125%	March 1, 2020	@	340,000.00	
		5.000%	March 1, 2020	@	21,630,000.00	
		4.200%	March 1, 2021	@	105,000.00	
		5.000%	March 1, 2021	@	22,960,000.00	
		4.250%	March 1, 2022	@	135,000.00	
		5.000%	March 1, 2022	@	24,080,000.00	
		5.000%	March 1, 2023	@	25,425,000.00	
		4.250%	March 1, 2024	@	50,000.00	
		5.000%	March 1, 2024	@	26,650,000.00	
		5.000%	March 1, 2025	@	28,035,000.00	
		4.300%	March 1, 2026	@	460,000.00	
		5.000%	March 1, 2026	@	28,975,000.00	$ 306,490,000.00
April 12, 2007	$350,000,000, Series DJ, callable	3.625%	April 1, 2012	@	4,690,000.00	
		4.000%	April 1, 2012	@	9,850,000.00	
		4.000%	April 1, 2013	@	6,315,000.00	
		5.000%	April 1, 2013	@	8,790,000.00	
		3.700%	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	
		5.000%	April 1, 2017	@	14,610,000.00	
		5.000%	April 1, 2018	@	18,970,000.00	
		5.000%	April 1, 2019	@	19,915,000.00	
		5.000%	April 1, 2020	@	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	@	24,210,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.000%	April 1, 2024	@	25,420,000.00	
		5.000%	April 1, 2025	@	26,690,000.00	
		5.000%	April 1, 2026	@	28,025,000.00	
		5.000%	April 1, 2027	@	29,425,000.00	$ 320,990,000.00
May 20, 2008	$375,000,000, Series DK, callable	3.000%	May 1, 2012	@	5,360,000.00	
		5.000%	May 1, 2012	@	9,450,000.00	
		3.500%	May 1, 2013	@	5,505,000.00	
		5.000%	May 1, 2013	@	9,935,000.00	
		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	@	19,545,000.00	
		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	$ 373,920,000.00
May 20, 2008	$29,010,000, Series DL, non-callable	3.000%	May 1, 2012	@	3,745,000.00	
	(refunding)	3.500%	May 1, 2013	@	3,860,000.00	
		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	$ 29,010,000.00
May 20, 2008	$25,000,000, Series DM, non-callable	4.260%	May 1, 2012	@	4,215,000.00	
	(taxable)	4.460%	May 1, 2013	@	4,395,000.00	
		4.670%	May 1, 2014	@	4,590,000.00	$ 13,200,000.00

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	3.000%	August 1, 2012	@	3,885,000.00	
		5.000%	August 1, 2013	@	4,045,000.00	
		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	$ 100,000,000.00
December 16, 2008	$101,825,000, Series DO, non-callable (refunding)	3.000%	August 1, 2012	@	7,545,000.00	
		5.000%	August 1, 2012	@	3,875,000.00	
		3.250%	August 1, 2013	@	5,905,000.00	
		5.000%	August 1, 2013	@	5,970,000.00	
		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	$ 90,840,000.00
December 16, 2008	$26,000,000, Series DP, non-callable (taxable)	4.400%	August 1, 2012	@	4,005,000.00	
		4.650%	August 1, 2013	@	4,195,000.00	
		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	$ 22,160,000.00
June 23, 2009	$500,000,000, Series DQ, callable	3.000%	June 1, 2013	@	10,480,000.00	
		4.000%	June 1, 2013	@	9,245,000.00	
		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	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.000%	June 1, 2017	@	23,535,000.00	
		5.000%	June 1, 2018	@	24,710,000.00	
		5.000%	June 1, 2019	@	25,945,000.00	
		3.600%	June 1, 2020	@	1,330,000.00	
		5.000%	June 1, 2020	@	25,910,000.00	
		3.750%	June 1, 2021	@	2,015,000.00	
		5.000%	June 1, 2021	@	26,570,000.00	
		4.000%	June 1, 2022	@	475,000.00	
		5.000%	June 1, 2022	@	29,515,000.00	
		4.000%	June 1, 2023	@	2,105,000.00	
		5.000%	June 1, 2023	@	29,380,000.00	
		4.125%	June 1, 2024	@	1,950,000.00	
		5.000%	June 1, 2024	@	31,090,000.00	
		5.000%	June 1, 2025	@	34,670,000.00	
		5.000%	June 1, 2026	@	36,405,000.00	
		5.000%	June 1, 2027	@	38,225,000.00	
		5.000%	June 1, 2028	@	40,140,000.00	
		4.500%	June 1, 2029	@	8,070,000.00	
		5.000%	June 1, 2029	@	34,075,000.00	$ 490,220,000.00
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

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
November 24, 2009	$204,140,000, Series DT, non-callable	2.250%	November 1, 2014	@	3,000,000.00	
		4.000%	November 1, 2014	@	18,000,000.00	
		5.000%	November 1, 2014	@	9,255,000.00	
		2.500%	November 1, 2015	@	2,000,000.00	
		4.000%	November 1, 2015	@	11,500,000.00	
		5.000%	November 1, 2015	@	18,085,000.00	
		2.750%	November 1, 2016	@	600,000.00	
		3.500%	November 1, 2016	@	2,750,000.00	
		5.000%	November 1, 2016	@	29,745,000.00	
		3.000%	November 1, 2017	@	1,500,000.00	
		4.000%	November 1, 2017	@	4,250,000.00	
		5.000%	November 1, 2017	@	28,975,000.00	
		3.250%	November 1, 2018	@	6,090,000.00	
		4.000%	November 1, 2018	@	5,240,000.00	
		5.000%	November 1, 2018	@	25,060,000.00	
		3.500%	November 1, 2019	@	4,250,000.00	
		4.500%	November 1, 2019	@	18,250,000.00	
		5.000%	November 1, 2019	@	15,590,000.00	$ 204,140,000.00
November 24, 2009	$6,260,000, Series DU, non-callable	4.000%	November 1, 2011	@	6,260,000.00	$ 6,260,000.00
November 24, 2009	$46,855,000, Series DV, non-callable	2.000%	November 1, 2012	@	7,040,000.00	
		4.000%	November 1, 2012	@	6,790,000.00	
		5.000%	November 1, 2012	@	33,025,000.00	$ 46,855,000.00
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 (Optional Make-Whole Redemptions)	3.000%	February 1, 2015	@	22,405,000.00	
		3.380%	February 1, 2016	@	23,080,000.00	
		3.730%	February 1, 2017	@	23,860,000.00	
		4.090%	February 1, 2018	@	24,745,000.00	
		4.290%	February 1, 2019	@	25,760,000.00	
		4.450%	February 1, 2020	@	26,865,000.00	
		4.600%	February 1, 2021	@	28,060,000.00	
		4.800%	February 1, 2022	@	29,350,000.00	
		4.950%	February 1, 2023	@	30,760,000.00	
		5.100%	February 1, 2024	@	32,280,000.00	
		5.230%	February 1, 2025	@	33,930,000.00	
		5.330%	February 1, 2026	@	35,705,000.00	
		5.430%	February 1, 2027	@	37,605,000.00	
		5.480%	February 1, 2028	@	39,650,000.00	
		5.510%	February 1, 2029	@	41,820,000.00	
		5.530%	February 1, 2030	@	44,125,000.00	$ 500,000,000.00
February 18, 2010	$221,265,000, Series DY, non-callable	3.000%	February 1, 2015	@	7,000,000.00	
		4.000%	February 1, 2015	@	12,000,000.00	

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

Total of all State of Hawaii general obligation bonds and general obligation refunding bonds issued and outstanding	$ 4,854,670,000.00

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

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

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

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

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

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

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. 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 (the "IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing (the "FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 (the "DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act ("Section 340") essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5 and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S.

Constitution, and misrepresentation and non disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

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

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under Article XII, Sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix, prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement 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 bill 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 and 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.

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 Hawaii Housing Finance and Development Corporation, as described below) and to 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 filed a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join in 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 filed 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 Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the suits against them described above were filed. As more fully described under "GENERAL ECONOMIC INFORMATION—State Housing Programs" in Appendix A, the 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 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

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

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

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 (1st Cir.); *Williamson v. State of Hawaii, et al.*, Civil No. 99-4773-12 (1st Cir.); and *Hanohano v. State of Hawaii, et al.*, Civil No. 99-4772-12 (1st Cir.). 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. Plaintiffs Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named plaintiffs in *Kalima I* filed a second class action lawsuit in the state circuit court for declaratory and injunctive relief, and for damages under HRS 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*.

On August 30, 2000, the circuit court entered an order in *Kalima I* granting plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying the State's motion for judgment on the pleadings. Essentially, the circuit court rejected the sovereign immunity, lack of subject matter jurisdiction, and no cause of action defenses the State asserted, and ruled that the plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS 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 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 trial. By an opinion issued June 30, 2006, the Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

The plaintiffs 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 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. Trial to determine whether, and to what extent, if any, subclass members sustained out of pocket damages is yet to be scheduled.

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

The *Nelson* plaintiffs allege all defendants 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 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 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.

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, in 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 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 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 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 (the "EUTF Board") (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. 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 ERS Board's decision to the First Circuit Court. *See Marion Everson, et al. v. Board of Trustees of the Hawaii Employer-Union Health Benefits Trust Fund, et al.*, Civil No. 07-1-1872-10, First Circuit Court, State of Hawaii. By order dated July 23, 2008, the First Circuit Court reversed the decision of the EUTF Board holding, in part, 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 that retirees and their dependents be provided with health benefits plans that provide health 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 employees 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 in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al.*) 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 provides 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 Sections 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, for physical damages caused by their foregoing or delaying health care due to insufficient coverage in their EUTF health plans, and for pain and suffering caused by their delaying, foregoing, or personally paying for health care 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.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Dated December 7, 2011

$800,000,000 **General Obligation Bonds** **of 2011, Series DZ**	**$403,455,000** **General Obligation Refunding** **Bonds of 2011, Series EA**

$2,800,000 **General Obligation Refunding** **Bonds of 2011, Series EB**	**$56,225,000** **General Obligation Refunding Bonds** **of 2011, Series EC**	**$23,750,000** **General Obligation Refunding Bonds** **of 2011, Series ED**

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 $800,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2011, Series DZ, its $403,455,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2011, Series EA, its $2,800,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2011, Series EB, its $56,225,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2011, Series EC, and its $23,750,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2011, Series ED (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(bX5) 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, 2011, 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 17, 2011, 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 – Actual Collections and 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 2011A Bonds or other material events affecting the tax-exempt status of the Bonds;

(8) unscheduled draws on the debt service reserves reflecting financial difficulties;

(9) unscheduled draws on the credit enhancements reflecting financial difficulties;

(10) Substitution of credit or liquidity providers or their failure to perform;

(11) release, substitution or sale of property securing repayment of the Bonds, if material;

(12) bankruptcy, insolvency, receivership or similar event of the State;

(Note to clause 12: For the purposes of the event identified in clause 12 above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.)

(13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The State shall in a timely manner, not in excess of ten (10) business days after the occurrence of a Listed Event, (i) where relevant pursuant to subsection (a) above, determine if such event would be material under applicable federal securities laws, and (ii) in all events, file notice of such occurrence with the MSRB.

Section 6. Filings with MSRB. All Annual Reports, notices of Listed Events and other notices and information provided to the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format as prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non-textual elements), accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate with respect to each Bond upon the legal defeasance or payment in full of such Bond. If the obligations of the State under this Disclosure Certificate with respect to all Bonds terminate prior to the final maturity of the Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

Section 8. Dissemination Agent. The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State pursuant to this Disclosure Certificate.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate, and any provision of this, Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

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

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

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the State to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Certificate with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 13. Governing Law. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawaii, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawaii; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

STATE OF HAWAII

By____________________________

KALBERT K. YOUNG
Director of Finance
State of Hawaii

EXHIBIT A

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

Name of Issuer:	State of Hawaii
Names of Bond Issues:	State of Hawaii General Obligation Bonds of 2011, Series DZ State of Hawaii General Obligation Refunding Bonds of 2011, Series EA State of Hawaii General Obligation Refunding Bonds of 2011, Series EB State of Hawaii General Obligation Refunding Bonds of 2011, Series EC State of Hawaii General Obligation Refunding Bonds of 2011, Series ED
Date of Issuance:	December 7, 2011

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 December 7, 2011. [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

[Letterhead of Hawkins Delafield & Wood LLP]

December 7, 2011

State of Hawaii
Honolulu, Hawaii

STATE OF HAWAII

$800,000,000
General Obligation Bonds
of 2011, Series DZ

$403,455,000
General Obligation Refunding
Bonds of 2011, Series EA

$2,800,000
General Obligation Refunding
Bonds of 2011, Series EB

$56,225,000
General Obligation Refunding Bonds
of 2011, Series EC

$23,750,000
General Obligation Refunding Bonds
of 2011, Series ED

Ladies and Gentlemen:

We have acted as bond counsel to the State of Hawaii (the "State") in connection with the issuance by the State of $800,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2011, Series DZ (the "Series DZ Bonds"), $403,455,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2011, Series EA (the "Series EA Bonds"), $2,800,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2011, Series EB (the "Series EB Bonds"), $56,225,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2011, Series EC (the "Series EC Bonds"), and $23,750,000 aggregate principal amount of State of Hawaii General Obligation Refunding Bonds of 2011, Series ED (the "Series ED Bonds" and, together with the Series DZ Bonds, Series EA Bonds, Series EB Bonds and Series EC 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 17, 2011, providing for the issuance of the Bonds (the "Certificate"), and various acts of the Legislature of the State identified in the Certificate.

At your request we have examined into the validity of the Bonds and certain other matters as expressly set forth below. We have examined the Constitution and statutes of the State; the Certificate; a certificate of the Governor of the State approving the issuance of the Bonds; certificates and opinions of the Attorney General of the State; a specimen Bond of each series; and such other records and documents, and have made such other examination of applicable law and fact, as we have considered necessary or appropriate for purposes of this letter.

Based on the foregoing, and subject to the assumptions and limitations referred to below, we are of the opinion that:

1. The Bonds have been duly authorized and issued in accordance with the Constitution and laws of the State and constitute valid general obligations of the State.

2. The full faith and credit of the State are pledged to the punctual payment of principal of and interest on the Bonds, and principal and interest payments on the Bonds are a first charge on the general fund of the State.

3. Under existing statutes and court decisions, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 3, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State and others in connection with the Bonds, and have assumed compliance by the State with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of the interest on the Bonds from gross income under Section 103 of the Code. Under the Code, noncompliance with such requirements may cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is discovered.

4. For any Bonds having original issue discount, the original issue discount that has accrued and is properly allocable to the owners of such Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on such Bonds.

5. Under existing laws of the State, the Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes.

The opinions expressed in paragraphs 1 and 2 above may be subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law, and limitations on legal remedies against the State.

We express no opinion herein as to (i) Federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraphs 3, 4 and 5 above, (ii) the effect of any action taken or not taken in reliance upon an opinion of counsel, other than ourselves, on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state or local tax law, or (iii) the accuracy, adequacy, sufficiency or completeness of the Official Statement dated November 17, 2011 (or any update or amendment thereof or supplement thereto) relating to the Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the Bonds.

This letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this letter to reflect any action hereafter taken or not taken, or any facts or circumstances, or changes in law or in interpretations thereof, that may hereafter occur, or for any other reason.

Very truly yours,

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

REFUNDED BONDS

The State of Hawaii General Obligation Bonds and General Obligation Refunding Bonds to be refunded by the Refunding Bonds are as shown below.

The final payment dates of the Refunded Bonds will be their respective stated maturity dates or, if earlier, designated redemption dates, as shown in the table below.

Schedule of Bonds to be Refunded

Refunded Bonds	Principal Amount ($)	Stated Maturity	Interest Rate (%)	Redemption Date	Redemption Price (%)	CUSIP*
2001 Series CV	250,000	08/01/2016	4.800	01/06/2012	100.00	419791WP9
	6,860,000	08/01/2016	5.375	01/06/2012	100.00	4197802E0
	7,495,000	08/01/2017	5.125	01/06/2012	100.00	4197802F7
	7,900,000	08/01/2018	5.375	01/06/2012	100.00	419791WQ7
	845,000	08/01/2019	4.900	01/06/2012	100.00	419791WR5
	7,485,000	08/01/2019	5.375	01/06/2012	100.00	419791WT1
	8,770,000	08/01/2020	5.000	01/06/2012	100.00	419791WS3
	5,590,000	08/01/2021	5.000	01/06/2012	100.00	419780TN1
	7,255,000	08/01/2021	5.250	01/06/2012	100.00	419791WU8
	52,450,000					
2001 Series CW	10,635,000	08/01/2013	5.375	01/06/2012	100.00	419791XE3
	165,000	08/01/2014	4.600	01/06/2012	100.00	419791XC7
	17,050,000	08/01/2014	5.375	01/06/2012	100.00	419780UL3
	720,000	08/01/2015	4.700	01/06/2012	100.00	4197802C4
	12,475,000	08/01/2015	5.375	01/06/2012	100.00	4197802D2
	41,045,000					
2002 Series CX	410,000	02/01/2016	4.750	02/01/2012	100.00	419780Y70
	9,055,000	02/01/2016	5.500	02/01/2012	100.00	419780Y54
	725,000	02/01/2017	4.800	02/01/2012	100.00	419780Y88
	9,255,000	02/01/2017	5.500	02/01/2012	100.00	419780Y62
	10,520,000	02/01/2018	5.000	02/01/2012	100.00	419780Y96
	11,045,000	02/01/2019	5.000	02/01/2012	100.00	419791XK9
	11,595,000	02/01/2020	5.100	02/01/2012	100.00	419791XL7
	12,190,000	02/01/2021	5.500	02/01/2012	100.00	419791XM5
	12,860,000	02/01/2022	5.125	02/01/2012	100.00	419791XN3
	77,655,000					

Refunded Bonds	Principal Amount ($)	Stated Maturity	Interest Rate (%)	Redemption Date	Redemption Price (%)	CUSIP*
2002 Series CZ	1,360,000	07/01/2014	3.900	07/01/2012	100.00	419780XP1
	1,520,000	07/01/2014	5.500	07/01/2012	100.00	419791ZM3
	2,305,000	07/01/2015	4.000	07/01/2012	100.00	419780XR7
	210,000	07/01/2016	4.125	07/01/2012	100.00	419780XT3
	3,705,000	07/01/2016	5.250	07/01/2012	100.00	419780Z53
	375,000	07/01/2017	4.250	07/01/2012	100.00	419780XV8
	60,000	07/01/2018	4.300	07/01/2012	100.00	419780XX4
	8,205,000	07/01/2018	5.250	07/01/2012	100.00	419791ZN1
	1,160,000	07/01/2020	4.500	07/01/2012	100.00	419780YA3
	8,370,000	07/01/2022	4.800	07/01/2012	100.00	419780YE5
	27,270,000					
2003 Series DA	10,000	09/01/2016	4.400	09/01/2013	100.00	419780ZP9
	13,835,000	09/01/2016	5.250	09/01/2013	100.00	419780ZQ7
	170,000†	09/01/2017	4.500	09/01/2013	100.00	419780ZR5
	615,000†	09/01/2018	4.600	09/01/2013	100.00	419780ZT1
	7,065,000†	09/01/2018	5.250	09/01/2013	100.00	419780ZU8
	8,095,000†	09/01/2019	5.250	09/01/2013	100.00	419780ZV6
	15,000†	09/01/2020	4.750	09/01/2013	100.00	419780ZW4
	8,515,000†	09/01/2020	5.250	09/01/2013	100.00	419780ZX2
	245,000†	09/01/2021	4.800	09/01/2013	100.00	419780ZY0
	8,740,000†	09/01/2021	5.250	09/01/2013	100.00	419780ZZ7
	120,000†	09/01/2022	4.900	09/01/2013	100.00	419780A27
	9,350,000†	09/01/2022	5.250	09/01/2013	100.00	419780A35
	2,335,000†	09/01/2023	4.900	09/01/2013	100.00	419780A43
	7,645,000†	09/01/2023	5.250	09/01/2013	100.00	419780C41
	66,755,000					
2003 Series DB	5,795,000†	09/01/2016	5.250	09/01/2013	100.00	419780B91
2004 Series DD	2,700,000†	05/01/2015	5.250	05/01/2014	100.00	419780E49
	575,000	05/01/2017	4.250	05/01/2014	100.00	419780E72
	13,430,000	05/01/2017	5.000	05/01/2014	100.00	419780E80
	460,000	05/01/2018	4.300	05/01/2014	100.00	419780E98
	5,230,000	05/01/2018	5.000	05/01/2014	100.00	4197802K6
	14,825,000	05/01/2019	5.000	05/01/2014	100.00	419780F48
	250,000	05/01/2020	4.500	05/01/2014	100.00	419780F55
	15,950,000	05/01/2020	5.000	05/01/2014	100.00	419780F63
	17,010,000	05/01/2021	5.000	05/01/2014	100.00	419780F71
	17,860,000	05/01/2022	5.250	05/01/2014	100.00	419780F89
	1,150,000	05/01/2023	4.750	05/01/2014	100.00	419780F97
	17,645,000	05/01/2023	5.250	05/01/2014	100.00	419780G21
	2,045,000	05/01/2024	4.800	05/01/2014	100.00	419780G39
	17,735,000	05/01/2024	5.250	05/01/2014	100.00	419780G47
	126,865,000					

† Constitutes less than the total outstanding principal amount of this maturity and interest rate. The listed CUSIP number is the current CUSIP number for the Bonds of this maturity. Because less than all Bonds of this maturity are scheduled to be refunded, new CUSIP numbers will be issued for the refunded Bonds and may be issued for the unrefunded Bonds.

Refunded Bonds	Principal Amount ($)	Stated Maturity	Interest Rate (%)	Redemption Date	Redemption Price (%)	CUSIP*
2004 Series DE	1,715,000	10/01/2016	3.625	10/01/2014	100.00	419780K42
	11,600,000	10/01/2016	5.000	10/01/2014	100.00	419780K59
	13,855,000	10/01/2017	5.000	10/01/2014	100.00	419780K75
	2,250,000†	10/01/2019	5.000	10/01/2014	100.00	419780L33
	2,500,000†	10/01/2020	5.000	10/01/2014	100.00	419780L58
	250,000†	10/01/2021	5.000	10/01/2014	100.00	419780L74
	14,360,000	10/01/2022	5.000	10/01/2014	100.00	419780L90
	17,270,000	10/01/2023	5.000	10/01/2014	100.00	419780M32
	63,800,000					
2005 Series DF	3,800,000†	07/01/2016	5.000	07/01/2015	100.00	419780P96
	10,700,000†	07/01/2017	5.000	07/01/2015	100.00	419780Q38
	2,500,000†	07/01/2019	5.000	07/01/2015	100.00	419780Q79
	4,880,000†	07/01/2022	5.000	07/01/2015	100.00	419780R45
	11,700,000†	07/01/2023	5.000	07/01/2015	100.00	419780R52
	33,580,000					
2006 Series DI	17,300,000	03/01/2017	5.000	03/01/2016	100.00	4197804B4
	17,300,000					
	512,515,000					

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

† Constitutes less than the total outstanding principal amount of this maturity and interest rate. The listed CUSIP number is the current CUSIP number for the Bonds of this maturity. Because less than all Bonds of this maturity are scheduled to be refunded, new CUSIP numbers will be issued for the refunded Bonds and may be issued for the unrefunded Bonds.

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STATE OF HAWAII • GENERAL OBLIGATION BONDS OF 2011, SERIES DZ AND GENERAL OBLIGATION REFUNDING BONDS OF 2011, SERIES EA, SERIES EB, SERIES EC AND SERIES ED

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