NEW ISSUE
FULL BOOK-ENTRY ONLY

RATINGS: See "Ratings" herein.

The delivery of the Bonds is subject to the opinion of Katten Muchin Rosenman LLP, Bond Counsel, to the effect that under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for federal income tax purposes and that, assuming continuing compliance with the applicable requirements of the Internal Revenue Code of 1986, interest on the Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes and all of 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. Interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income, but must be taken into account as earnings and profits of a corporation when computing, for example, corporate minimum taxable income for purposes of the corporate alternative minimum tax. See "TAX EXEMPTION" herein.

State of Hawaii

$350,000,000
General Obligation Bonds
of 2006, Series DI

(Base CUSIP: 419780)

Dated: Date of Delivery

Due: March 1, as shown on inside cover.

The General Obligation Bonds of 2006, Series DI, will be issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Bonds, purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Bonds may be made in the denomination of $5,000 or any integral multiple thereof. See Appendix G — "Book-Entry System" herein.

The Bonds bear interest payable on March 1 and September 1 of each year, commencing September 1, 2006. **The Bonds are subject to redemption prior to maturity as and to the extent described herein.**

The 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. See **"AUTHORITY AND PURPOSE"** herein. The Bonds are general obligations of the State of Hawaii. The interest and principal payments on the Bonds are a first charge on the General Fund of the State of Hawaii, and the full faith and credit of the State of Hawaii are pledged to the punctual payment thereof.

The scheduled payment of principal of and interest on the Bonds, when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.

FSA

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 are offered when, as and if issued and received by the Underwriters, and are subject to the approval of validity by Katten Muchin Rosenman LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about March 23, 2006.

Citigroup

A.G. Edwards **UBS Investment Bank**

Dated: March 8, 2006

State of Hawaii

$350,000,000 General Obligation Bonds of 2006, Series DI
Dated: Date of Delivery
Due: March 1, as shown below

Due March 1	Principal Amount	Interest Rate	Yield	CUSIP Number (419780)
2010	$8,980,000	3.500%	3.59%	3H2
2010	4,945,000	5.000	3.59	3J8
2011	7,410,000	3.625	3.68	3K5
2011	950,000	4.000	3.68	3L3
2011	6,125,000	5.000	3.68	3M1
2012	7,600,000	3.750	3.77	3N9
2012	7,500,000	5.000	3.77	3P4
2013	4,170,000	3.800	3.86	3Q2
2013	2,250,000	4.000	3.86	3R0
2013	9,340,000	5.500	3.86	3S8
2014	1,390,000	3.900	3.92	3T6
2014	15,130,000	5.000	3.92	3U3
2015	1,065,000	3.900	3.97	3V1
2015	4,000,000	4.500	3.97	3W9
2015	12,270,000	5.000	3.97	3X7
2016	7,135,000	4.000	4.02	3Y5
2016	11,030,000	5.000	4.02	3Z2
2017	1,705,000	4.000	4.07	4A6
2017	17,300,000	5.000	4.07*	4B4
2018	885,000	4.000	4.11	4C2
2018	19,050,000	5.000	4.11*	4D0
2019	235,000	4.125	4.15	4E8
2019	20,690,000	5.000	4.15*	4F5
2020	340,000	4.125	4.19	4G3
2020	21,630,000	5.000	4.19*	4H1
2021	105,000	4.200	4.23	4J7
2021	22,960,000	5.000	4.23*	4K4
2022	135,000	4.250	4.25	4L2
2022	24,080,000	5.000	4.25*	4M0
2023	25,425,000	5.000	4.27*	4N8
2024	50,000	4.250	4.29	4P3
2024	26,650,000	5.000	4.29*	4Q1
2025	28,035,000	5.000	4.31*	4R9
2026	460,000	4.300	4.33	4S7
2026	28,975,000	5.000	4.33*	4T5

* Priced to the optional call date of March 1, 2016 at par.

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

Linda Lingle
Governor

James R. Aiona, Jr.
Lieutenant Governor

Georgina K. Kawamura
Director of Finance

Mark J. Bennett
Attorney General

Russ K. Saito
Comptroller

BOND COUNSEL

Katten Muchin Rosenman LLP

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The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit H speciman "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Table of Contents

OFFICIAL STATEMENT

State of Hawaii

$350,000,000
General Obligation Bonds
of 2006, Series DI

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 $350,000,000 aggregate principal amount of General Obligation Bonds of 2006, Series DI, (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 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), 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, certain other public purposes, including payment of $30 million during fiscal year 2006 in connection with the Hawaiian Home Lands Settlement, as authorized by Act 41, SLH 2004, and (ii) to pay costs of issuance of the Bonds. See **"DEBT STRUCTURE – Outstanding Indebtedness and Debt Limit"** in Part I of Appendix A.

THE BONDS

Details of the Bonds

The Bonds will be dated their date of delivery, and will be issued in fully registered form without coupons, in the denomination of $5,000 or any integral multiple of $5,000. The Bonds will mature serially on March 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 March 1 and September 1 of each year, commencing September 1, 2006 (each an "interest payment date").

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

Optional Redemption of Bonds

The Bonds maturing after March 1, 2016 will be subject to redemption at the option of the State at any time on and after March 1, 2016, 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.

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

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

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

SECURITY FOR THE BONDS

Security Provisions

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

Market Risk

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

Sovereign Immunity

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

BOND INSURANCE

The following information has been furnished by Financial Security Assurance Inc. for use in this Official Statement. Reference is made to Appendix H for a specimen of the policy to be issued by Financial Security Assurance Inc.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2005, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,451,658,000 and its total net unearned premium reserve was approximately $1,773,571,000 in accordance with statutory accounting principles. At September 30, 2005, Financial Security's consolidated shareholder's equity was approximately $2,867,978,000 and its total net unearned premium reserve was approximately $1,448,209,000 in accordance with generally accepted accounting principles.

The financial statements of Financial Security included in, or as exhibits to, the Current Report on Form 8K filed on November 22, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

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, 2005. The State of Hawaii and other sources considered reliable have furnished the information set forth in Appendices A and B. The Underwriters and their counsel have not independently verified any of such information, nor have they made an independent determination of the financial position of the State. There can be no assumption that the information is indicative of the current financial position or future financial performance of the State.

PENDING LITIGATION

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

Office of Hawaiian Affairs and Ceded Lands

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

In 1979, the State legislature (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 monies 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 alleging that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to

OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies 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 monies it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

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

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

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii, et al.*, Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation ("DOT") issued a report (the "IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the airports and not a diversion of airport revenues. In April 1997, the Acting Administrator of the FAA concurred in writing (the "FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the 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 October 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 April 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 monies 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. OHA filed a motion for reconsideration that the court granted in an order filed on December 23, 2005.

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

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

Corporation 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 Corporation's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court. Those appeals are now pending. Trial to determine the sufficiency of the proceeds paid to OHA by the Corporation and the State from the sale of the particular parcels of Ceded Lands at issue has not been scheduled.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority ("HHA" and now, the Corporation), 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.

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 October 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the Legislature's response to the Panel's recommendations.

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

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

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

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

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

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court and entered an order staying all proceedings in *Kalima I* pending the Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. Since then, the State has secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided can be reviewed by the Supreme Court prior to trial. All briefs have been filed and the parties are awaiting oral argument or a decision from the court in this second appeal. All proceedings in *Kalima I* in the circuit court remain stayed, and no trial date has been set in either *Kalima I* or any of the other individual claims cases.

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") actuarial investment earnings in excess of ten percent for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, §2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346.9 million plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

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

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

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

Other

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

TAX MATTERS

In the opinion of Katten Muchin Rosenman LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), and the Bonds and the income therefrom are exempt from all taxation by the State or any county or other political subdivision thereof, except inheritance, transfer, estate and certain franchise taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

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

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

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

Certain requirements and procedures contained or referred to in the Ordinances authorizing the Bonds, the Authorizing Certificate, the Tax Certificate of the State relating to the Bonds, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Katten Muchin Rosenman LLP.

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

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

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

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

APPROVAL OF LEGAL PROCEEDINGS

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

RATINGS

Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., are expected to rate the Bonds "AAA", "Aaa" and "AAA," respectively, with the understanding that upon delivery of the Bonds, the municipal bond insurance policy insuring payment of the principal of and interest on the Bonds, will be issued by Financial Security Assurance Inc. 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

The Underwriters have agreed to purchase the Bonds at an aggregate purchase price equal to the principal amount of the Bonds, plus a net premium of $19,516,673.40, and less and an aggregate underwriting fee of $1,183,635.00 The Underwriters will be obligated to purchase all of the Bonds if any are purchased.

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

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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

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

CONTINUING DISCLOSURE

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

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

FINANCIAL STATEMENTS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 2005, included as Part II of Appendix B, have been audited by KPMG LLP, independent auditors, as stated in their report appearing therein, which is based in part on the reports of other auditors. The State has neither requested nor obtained the consent of KPMG LLP to include their report, and such firm has performed no procedures subsequent to rendering their report. There can be no assurance that the information is indicative of the current financial position or future financial performance of the State.

MISCELLANEOUS

To the extent any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement, nor any statement that may have been made verbally or in writing, is to be construed as a contract with the holders of any of the Bonds. The Department of Budget and Finance, State of Hawaii has prepared this Official Statement and has duly authorized the delivery hereof.

APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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

INTRODUCTION

General

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

State Government

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

The Counties and Their Relationship to the State

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

DEBT STRUCTURE

Types of Bonds Authorized by the Constitution

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

Outstanding Indebtedness and Debt Limit

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

In order to carry out the provisions contained in the Constitution, the Legislature enacted Part IV of Chapter 39, HRS ("Part IV"), to require the Director of Finance to prepare statements of the total outstanding indebtedness of the State and the exclusions therefrom and of the debt limit of the State evidencing the power of the State to issue general obligation bonds and, prior to the issuance of any general obligation bonds, to find that the issuance of such bonds will not cause the debt limit of the State to be exceeded. Part IV provides that such statements shall be prepared as of July 1 of each year and submitted to the Legislature no later than December 1 of such year. The July 1, 2005 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, 2005, 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, 2003, 2004 and 2005 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 July 1, 2005 and on the Bonds, after exclusions therefrom permitted by the Constitution, is $533,619,678 in the fiscal year ending June 30, 2009. A summary of debt service on all general obligation bonded indebtedness of the State is set forth in the under "**SUMMARY OF DEBT SERVICE**" in Part I of Appendix B; however, the debt service excluded in that table includes all general obligation bonds for which reimbursement is made regardless of whether such bonds may be excluded under the Constitution.

As calculated from the State Comptroller's Bond Fund report as of October 31, 2005, the amount of authorized but unissued general obligation bonds is $1,305,057,989. Act 178, SLH 2005 appropriated an additional $182,869,000 for fiscal year 2006-2007. The authorized but unissued bonds currently total $1.49 billion. The bonds are scheduled to be issued prior to June 30, 2009.

Exclusions

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

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

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

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

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

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

Other Constitutional and Statutory Provisions

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

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

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

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

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

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

Financing Agreements (Including Leases)

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

Reimbursement to State General Fund for Debt Service

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

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

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

Introduction

The State Constitution requires the establishment of a tax review commission to be appointed as provided by law every five years. The purpose of such commission is to submit to the Legislature an evaluation of the State's tax structure and to recommend revenue and tax policy, after which such commission is dissolved. The Constitution does not require action by the Legislature with respect to the recommendations as submitted. The Legislature has the option of accepting or rejecting all or portions of the commission's findings. The third tax review commission convened on September 26, 1995, and issued its report in final form on December 16, 1996. As a result of a proposed Constitutional amendment to have the tax review commission appointed every ten years, a commission was not appointed in 2000. The proposed amendment failed to pass and a commission was appointed in 2001, and issued its final report in December 2002. A new commission has been appointed for 2005. The findings and recommendations of the commission are merely recommendations and the Legislature is not required to adopt the findings.

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

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

General Fund

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

The Constitution provides that whenever the General Fund balance at the close of each of two successive fiscal years exceeds 5% of General Fund revenues for each of the two fiscal years, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. The fiscal year 2002 and fiscal year 2003 fund balances did not exceed 5% of the General Fund revenues; accordingly, the 2004 Legislature did not provide for a tax refund or tax credit. The fiscal year 2004 fund balance also did not exceed 5% of the General Fund revenues; accordingly, the 2005 Legislature did not provide for a tax refund or tax credit. Although the fiscal year 2005 fund balance exceeded 5% of General Fund revenues, the two successive fiscal year criteria was not met and the 2006 Legislature will not be required to provide for a tax refund or tax credit. Based on current projections, it is expected that the fiscal year 2006 fund balance will exceed 5% of General Fund revenues. If this occurs, the two successive fiscal year criteria will be met and the 2007 Legislature will be required to provide for a tax refund or tax credit.

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

Taxes and Other Amounts Deposited in General Fund

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

Individual and corporate income taxes, general excise and use taxes, public service company taxes, estate and certain transfer taxes, a franchise tax on financial corporations, liquor and tobacco taxes, and certain insurance premium taxes, which for fiscal year 2005 represented approximately 89% of all tax revenues of the State, are deposited to the General Fund. The individual income tax rates for married or unmarried individuals, including Head of Household as well as estates and trusts, range from 1.4% to 8.25% of taxable income. Corporate income tax rates range from 4.4% to 6.4%. The general excise (gross income) tax is a business privilege tax measured by the application of rates against values of products, gross proceeds of sales or gross income. The use tax is an excise tax levied on tangible personal property, contracting, or services imported or purchased from an unlicensed seller for resale or use in the State. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable. The Public Service Company tax is a tax measured by the gross income from public utility business of public utilities. The estate and transfer tax is a tax on the transfer of a taxable estate and a generation skipping transfer equal to the federal credit for state death taxes allowed by the Internal Revenue Code (IRC) Section 2011 and a federal credit for state taxes allowed by IRC Section 2604. From January 1, 2005 to December 31, 2010, the federal credit was repealed and replaced with a deduction for the state death taxes. Hawaii's estate and transfer tax is currently not effective for decedents dying after December 31, 2004 and before December 31, 2010. The franchise tax is a tax measured by the taxable income of banks and other financial corporations. There is an excise tax on those who sell or use tobacco products and a gallonage tax imposed on dealers who sell or use liquor.

Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, grants, charges for administrative services and other sources. In fiscal year 2004, these non-tax revenues comprised approximately 12% of total deposits to the General Fund.

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

Special Fund

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

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

Fuel taxes, rental motor vehicle and tour vehicle surcharge taxes, motor vehicle taxes and unemployment insurance taxes are deposited into the Special Fund. In fiscal year 2005 those taxes were 7.2% of the total tax revenues of the State. Distributors are required to pay taxes on aviation fuel, diesel oil, alternative fuels for operation of an internal combustion engine and on liquid fuels other than the foregoing, e.g., on gasoline used to operate motor vehicles upon the public highways. There is a rental motor vehicle surcharge tax on a rented or leased motor vehicle. The tax is levied on the lessor. There is also a tour vehicle surcharge tax for each tour vehicle in the over 25-passenger seat category and for each tour vehicle in the 8- to 25-passenger seat category. The tax is levied on the tour vehicle operator. The State has a vehicle weight tax that varies from $.75 per pound to $1.25 per pound, depending on the weight of the vehicle. The unemployment insurance tax is a tax on wages paid by employing units with one or more employees with certain exemptions. The unemployment tax rate is determined according to a multi-contribution schedule system. There is an additional employment and training fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .01%.

Federal Grants

State departments, agencies, and institutions annually receive federal grants. These amounts account for about 15% of the total State budget for each year, but are not a source of payment for the Bonds. Approximately 51% 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 27% 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 7% of all federal funds, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, account for about 5% of such federal receipts. Other programs account for the balance of such receipts. In fiscal year 2004, the State received a one-time federal grant of $50 million from the Jobs and Growth Tax Relief Reconciliation Act of 2003. The following table details the annual federal grants for the indicated fiscal years to the State's departments, agencies and institutions.

Fiscal Year Ended June 30	Grant Amount (in millions)
1999	$1,181.2
2000	1,142.3
2001	1,213.4
2002	1,382.2
2003	1,590.8
2004	1,724.9
2005	1,830.6

Budget System

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

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

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

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

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

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

Emergency and Budget Reserve Fund

Chapter 328L, HRS, relating to the Hawaii Tobacco Settlement Special Fund, which established a special fund for moneys received from the settlement between the State of Hawaii and various tobacco companies, also established the Emergency and Budget Reserve ("EBR") Fund, a special fund for emergency and "rainy day" purposes. The EBR Fund will receive 24½% of the moneys received from the tobacco settlement. All interest earned from moneys in the EBR Fund is credited to the General Fund. Appropriations from the EBR Fund require a two-thirds majority vote of each house of the legislature. The EBR fund balance was $54.0 million as of June 30, 2004. Projected fund balances, after appropriations, are $54.1million, $55.1million, and $64.7million for fiscal years 2005, 2006 and 2007, respectively. Legislation will be submitted to the 2006 Legislature to appropriate $55 million in general funds in fiscal year 2007 to strengthen the EBR Fund. This would increase the estimated balances of the fund to $110.1 million at the start of fiscal year 2007 and to $119.7 million by the end of fiscal year 2007.

The annual proceeds from the tobacco settlement were $36.1 million for fiscal year 2001, $45.4 million for fiscal year 2002, $44.8 million for fiscal year 2003, $37.8 million for fiscal year 2004, and 38.3 million for fiscal year 2005. 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 $42 to $63 million a year for fiscal years 2005 to 2027. Under the Tobacco Master Settlement Agreement, the State's proceeds are estimated to total $1.5 billion. The amount of future annual proceeds is not guaranteed and is subject to adjustment.

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

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

Expenditure Control

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

Appropriations for recent fiscal years have not exceeded the expenditure ceiling, and the currently approved appropriations for fiscal years 2006 and 2007 are also below the expenditure ceiling.

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

Operating Expenditures. Maximum limits for operating expenditures are established for each fiscal year by legislative appropriations. Pursuant to Part II, Chapter 37, HRS, moneys can be withheld by the Governor or the Director of Finance to ensure the solvency of each fund. Expenditure plans consisting of quarterly requirements of all State programs are prepared at the beginning of each fiscal year by the respective departments of State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by Chapter 37, HRS. Allotment transfers between different appropriation items within individual departments can be made after approval is obtained from the Governor, or if delegated, the Director of Finance. Unencumbered allotment balances at the end of each quarter shall revert to the related appropriation account, except for the Department of Education and the University of Hawaii ("UH"). Requests to amend allotments must be approved by the Director of Finance. If federal funds allocable to a particular item are greater than had been estimated, the general funds are reduced proportionately as allowable, except for the Department of Education. Although the State has a biennial budget, appropriations are made for individual fiscal years and may not be expended interchangeably, except for five percent of appropriations to the Department of Education, which by statutory authority may be retained up to one year into the next fiscal biennium. The Office of the Governor approves all consultant contracts as to scope, justification, need, and cost. Department heads have been delegated authority to review and approve certain consultant contracts such as medical services. In order to realize savings from bulk acquisition, central purchasing is used for certain office and medical supplies, equipment, and motor vehicles. The Department of Accounting and General Services performs pre-audits on each financial transaction 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 Expenditure. Annual capital improvement expenditure plans are also prepared to control and monitor allotments and expenditures. Prior to the initiation of a project, it is reviewed for adherence to the State's General Plan 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.

In order to avoid any conflicts that may be created by the capital improvement program, the State has developed an overall State Plan and statewide planning system, which identifies both long and short-range goals, general implementation directions and coordination of statewide planning. The county general plans are part of this State Plan. 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 178, SLH 2005, provides for expenditures of $212.1 million and $62.4 million for fiscal years 2006 and 2007, respectively, from the SEFISF.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

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

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

Negotiations for the period from July 1, 2005 to June 30, 2007 have been completed. Negotiated settlements have been reached for the following bargaining units, providing for the following increases over that two-year period:

Unit 1 (blue collar workers): 9.73%
Unit 5 (teachers): 11.09%
Unit 10 (institutional health and correctional workers): 10.38%

Arbitrated decisions (which are not subject to ratification) have been reached for the following bargaining units, providing for the following increases over that two-year period:

Unit 2 (blue collar supervisors): 9.06%
Unit 3 (white collar workers): 10.04%
Unit 4 (white collar supervisors): 9.59%
Unit 6 (educational officers): 11.24%
Unit 8 (University of Hawaii administrative professional technical staff): 11.12%
Unit 9 (registered professional nurses): 13.38%
Unit 11 (firefighters): 14.16%
Unit 13 (professional and scientific employees): 9.44%

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

The 2001 Hawaii State Legislature passed Act 90, which authorized privatization of government services. Act 90 eliminated legal ambiguities regarding the ability to privatize services. Although there are no major specific privatization plans, Act 90 provided an important tool to increase productivity.

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

Act 245, SLH 2005, temporarily authorizes employee organizations to establish voluntary employees beneficiary association (VEBA) trusts to provide health benefits to state and county employees in their bargaining units outside of the Hawaii employer-union health benefits trust fund (Trust Fund). Each VEBA trust is to provide health benefits to state and county employees who retire after establishment of the VEBA trust (future retirees) and is to give state and county employees who were members of applicable bargaining units and who retired before establishment of the VEBA trust (existing retirees) a one-time option to transfer from the Trust Fund to the VEBA trust. The State and county employers' monthly contributions to each VEBA trust for active employees and future retirees are to be established by collective bargaining. Monthly contributions to each VEBA trust for existing retirees are to be equal to the contributions paid on behalf of similarly situated retirees under the Trust Fund. The stated purpose of Act 245 is to allow the establishment of a VEBA trust pilot program for three years 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. Act 245 is to be repealed on July 1, 2008. The Hawaii State Teachers Association has begun work on a VEBA trust and other employee-organizations have expressed interest in VEBA trusts. No employee-organization to date has actually begun offering health benefits through a VEBA trust.

State Employees' Retirement System

The Employees' Retirement System of the State of Hawaii (the "System") began operation on January 1, 1926. The System is a cost-sharing, multiple-employer defined benefit pension plan. The System covers all regular employees of the State and each of its counties, including judges and elected officials. On March 31, 2005, the System's membership was comprised of approximately 63,073 active employees, 4,938 inactive vested members and 33,301 pensioners and beneficiaries. The total assets of the System on a market value basis amounted to approximately $8.6 billion as of June 30, 2004, and $9.2 billion as of June 30, 2005. Actuarial certification of assets as of June 30, 2004 was $8.8 billion (See "State Employees Retirement System" in Appendix B hereto). As of June 30, 2005, the System's actuarial certification of assets was $8.9 billion, and its unfunded actuarial accrued liability was $4.1 billion.

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

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

Act 181, SLH 2004 established fixed employer contribution rates as a percentage of compensation effective July 1, 2005. Employers will contribute 15.75% for their police officers and firefighters and 13.75% for other employees. Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan.

As of March 31, 2005, the noncontributory plan covered approximately 54,176 active employees or 86% of all active members of the System. The number and percentage of noncontributory plan members may decrease in the future because of the implementation of the new hybrid plan discussed below.

In 1998 legislation was passed (Act 151, SLH 1998) modifying the administration of the System, including its actuarial valuation methods and actuarial assumptions. Since the System is a cost-sharing, multiple-employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the Counties. Act 179, SLH 2004 established a new defined benefit hybrid contributory plan effective July 1, 2006. The new plan provides certain current and new employees with the opportunity to participate in a defined benefit contributory plan. It provides portability for shorter-term employees and is expected to improve recruitment for and retention of public sector employees. The Employees' Retirement System actuary has determined that the new program is cost neutral, an important factor given the escalating costs of the retirement program.

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 Retirement 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") Fourth Quarter 2005 Quarterly Statistical and Economic Report ("QSER") or otherwise prepared by DBEDT some of which may be found at *http://www2.hawaii.gov/dbedt/latest/*. Unless otherwise stated, the following information is historical; estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are to calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "**GENERAL ECONOMIC INFORMATION.**" Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position. See "**APPENDIX B — FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII.**"

DBEDT's latest forecast for nominal Gross State Product ("GSP") (the value of all goods and services produced and consumed within the State) growth in 2006 is 5.8%. In real terms (adjusting for inflation), DBEDT estimates that 2006 GSP growth over 2005 will be 2.8%.

State of the Economy

Higher-than-expected rates of growth in employment, personal income, and tax collections are indicative of a continuing broad based expansion of Hawaii's economy. The level of permits for construction bodes well for future investment activity. Visitor arrivals and average daily visitor census are both up and federal spending remains strong.

In the fourth calendar quarter of 2005, 630,600 civilian people were employed in Hawaii. This employment level, 31,400 more than the fourth calendar quarter of 2004, or a 5.2% increase, was the highest quarterly rate of growth in civilian employment in Hawaii in fifteen years. According to the U.S. Bureau of Labor Statistics, Hawaii had the lowest seasonally not-adjusted unemployment rate in the nation in December 2005 at 2.4%.

Nominal total personal income rose 6.5% in the third calendar quarter of 2005 compared to the third calendar quarter of 2004. Ranked by rate of growth, the greatest increase was seen in Proprietors' Income (10.7%) followed by Supplements to Wages and Salaries (8.9%), Wage and Salary Disbursements (6.5%), Personal Current Transfer Receipts (5.2%) and Dividends, Interest, and Rent (2.6%). Contributions for Government Social Insurance, which is subtracted from personal income, also increased. Year-to-year quarterly earnings increased for all sectors except for Information and Finance and Insurance.

Tax revenues distributed to the State general fund increased 11.4% to $983 million for the fourth calendar quarter of 2005 compared to the fourth calendar quarter of 2004. Revenues from the general excise and use tax increased by 13.7% and net individual income tax collections increased 9.7% in the fourth calendar quarter 2005 compared to the fourth calendar quarter of 2004. Transient Accommodations Tax (TAT) revenues increased 16.6%.

The total number of visitors arriving by air was up 5.7% in the fourth calendar quarter of 2005, compared with the fourth calendar quarter of 2004. The overall quarterly increase in arrivals resulted from a 7.2% increase in domestic arrivals and a 2.2% increase in international arrivals. The average daily visitor census was up 6.0% for the quarter. Hotel occupancy rates increased 2.9 percentage points to 84.4% for the third calendar quarter of 2005, compared to a year ago.

Indicators of the status of Hawaii's construction industry remained positive signaling for sustained strong building activity in the future. Construction jobs increased 11.3% to 34,000 jobs in the fourth calendar quarter of 2005 compared to the fourth calendar quarter of 2004. The value of private building authorizations in the third calendar quarter of 2005 was up 19.5% from the third calendar quarter of 2004, amounting to a total value of over $700 million in Hawaii future construction.

The total number of bankruptcy filings increased by 15.8% in the second calendar quarter of 2005 compared to the second calendar quarter of 2004. This was the first quarterly increase in Hawaii bankruptcy filings in fourteen quarters. It is likely that the increase in Chapter 7 filings was in anticipation of the change in the Federal bankruptcy law.

Outlook for the Economy

DBEDT continues to anticipate solid growth for tourism, personal income, and wage and salary employment for 2005 and 2006. Projections of economic growth for the Mainland U.S., Hawaii's primary visitor market, are reasonably strong, while Japan is projected to grow, but at a slower pace.

Prospects for all three main drivers of Hawaii's economy continue to appear positive. The visitor industry, federal spending, and private construction all remain strong. Current building permit levels are still averaging well over $200 million a month, which should mean a healthy construction sector for the foreseeable future.

The future condition of Hawaii's economy is linked to the state of the mainland U.S. and Japanese economies. The December 2005 *Blue Chip Economic Consensus Forecast* projects real GDP growth in 2005 of 3.6% for the U.S. and 2.2% for Japan. Similarly, according to the January 2006 Blue Chip Economic Consensus Forecast, real GDP growth in 2006 is expected to be 3.4% for the U.S. and 2.4% for Japan. The expectation for U.S. consumer price inflation is about 3.4% in 2005 and 2.9% for 2006.

Hawaii total visitor arrivals and visitor days in 2005 increased 6.8% and 6.9%, respectively. Visitor expenditures are estimated to increase 8.4% in 2005. In 2006, visitor days, visitor arrivals, and visitor expenditures are predicted to increase 2.9%, 2.9%, and 5.8%, respectively.

Nominal personal income growth for 2005 and 2006 is forecast at 7.0% and 6.2%, respectively. Real personal income growth rates for 2005 and 2006 are forecast at 3.5% and 2.8%, respectively, after deflating the nominal projections by the Honolulu CPI-U.

Hawaii's projected inflation rates for 2005 and 2006 have been forecast at 3.4% and 3.3%, respectively. The recent housing and energy price pressures felt both in Hawaii and the nation as a whole are the basis for these forecasts.

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

Table 1
SELECTED ECONOMIC ACTIVITIES: STATE

		4th QUARTER 2005		YEAR ENDING DECEMBER 31, 2005	
	UNIT	NUMBER	% CHANGE YEAR AGO	NUMBER	% CHANGE YEAR AGO
Civilian Labor Force [1]	Persons	647,750	4.9	635,600	3.2
Civilian Employment	Persons	630,600	5.2	617,950	3.7
Civilian Unemployment	Persons	17,200	-5.0	17,650	-11.8
Unemployment Rate [1] [2]	%	2.6	-0.3	2.8	-0.5
Total Wage & Salary Jobs	Jobs	618,100	2.7	606,150	2.8
Total Non-Agriculture Wage & Salary Jobs	Jobs	610,550	2.7	598,800	2.8
Natural Resources, Mining, Construction	Jobs	34,000	11.3	32,400	10.6
Manufacturing	Jobs	15,250	-1.6	15,350	-0.6
Wholesale Trade	Jobs	17,750	2.9	17,500	2.9
Retail Trade	Jobs	71,600	2.5	69,200	3.4
Transportation, Warehousing, Utilities	Jobs	31,600	8.8	30,500	8.3
Information	Jobs	10,800	-2.7	10,800	0.9
Financial Activities	Jobs	29,500	2.8	29,250	1.9
Professional & Business Services	Jobs	74,800	4.4	73,300	3.8
Educational Services	Jobs	14,100	2.9	13,400	2.7
Health Care & Social Assistance	Jobs	56,700	2.8	56,100	3.2
Arts, Entertainment & Recreation	Jobs	11,700	0.0	11,600	0.9
Accommodation	Jobs	39,000	1.3	38,950	2.9
Food Services and Drinking Places	Jobs	57,350	3.9	56,300	3.5
Other Services	Jobs	25,000	4.0	24,550	1.4
Government	Jobs	121,400	-1.0	119,600	-0.4
Federal	Jobs	31,450	0.2	31,200	-0.8
State	Jobs	72,700	-2.0	71,200	-0.4
Local	Jobs	17,250	1.5	17,200	0.6
Agriculture Wages & Salary Jobs	Jobs	7,550	0.0	7,350	0.7
State General Fund Revenues [3]	$1,000	987,002	11.4	4,252,230	16.4
General Excise And Use Tax [3]	$1,000	549,727	13.7	2,263,393	13.7
Income-Individual [3]	$1,000	342,612	9.7	1,447,744	17.2
Transient Accommodations Tax [3]	$1,000	46,052	16.6	207,381	9.2

1) Labor force and jobs are based on monthly rounded data and seasonally not-adjusted.
2) Change represents absolute change in unemployment rates rather than percentage change in rates.
3) Preliminary.
Sources: Hawaii State Department of Labor & Industrial Relations; Hawaii State Department of Taxation. Compiled by Hawaii State Business Economic Development & Tourism and Hospitality Advisors, LLC.

Key Economic Indicators

Table 2
ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2003 TO 2008

Economic Indicators	2003 Actual	2004 Actual	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast
Total population (in thousands)	1,249.0	1,263.0	1,278.0	1,292.0	1,306.0	1,319.0
Visitor arrivals (in thousands)	6,442.0	6,992.0	7,446.0	7,661.0	7,853.0	8,041.0
Visitor expenditures (in million dollars)	10,055.0	10,862.0	11,610.0	12,288.0	12,934.0	13,589.0
Honolulu CPI-U (1982-84=100)	184.5	190.6	197.1	203.7	209.4	215.1
Personal income (in million dollars)	38,126.0	41,176.0	44,047.0	46,778.0	49,350.0	51,966.0
Real Personal income (in millions of 2000$)	36,431.0	38,086.0	39,402.0	40,495.0	41,551.0	42,587.0
Total wage & salary jobs (in thousands)	574.8	589.6	605.5	614.8	622.8	630.2
Gross state product (in million dollars)	46,671.0	50,322.0	53,744.0	56,861.0	59,875.0	62,928.0
Real gross state product (in millions of 2000$)	42,964.0	44,976.0[1]	46,545.0	47,856.0	49,068.0	50,215.0
Gross state product deflator (2000=100)	108.6	111.9[1]	115.5	118.8	122.0	125.3

ANNUAL PERCENTAGE CHANGE

Economic Indicators	Percent Change	Percent Change	Percent Change	Percent Change	Percent Change	Percent Change
Total population (in thousands)	1.2	1.1	1.2	1.1	1.1	1.1
Visitor arrivals (in thousands)	-0.2	8.5	6.5	2.9	2.5	2.4
Visitor expenditures (in million dollars)	4.6	8.0	6.9	5.8	5.3	5.1
Honolulu CPI-U (1982-84=100)	2.3	3.3	3.4	3.3	2.8	2.7
Personal income (in million dollars)	4.8	8.0	7.0	6.2	5.5	5.3
Real Personal income (in millions of 2000$)	2.4	4.5	3.5	2.8	2.6	2.5
Total wage & salary jobs (in thousands)	1.9	2.6	2.7	1.5	1.3	1.2
Gross state product (in million dollars)	6.5	7.8	6.8	5.8	5.3	5.1
Real gross state product (in millions of 2000$)	3.8	4.7[1]	3.5	2.8	2.5	2.3
Gross state product deflator (2000=100)	2.7	3.0[1]	3.2	2.9	2.7	2.7

[1] DBEDT-adjusted U.S. Bureau of Economic Analysis accelerated estimate..
Source: Hawaii State Department of Business, Economic Development & Tourism, November 14, 2005.

Labor Force and Jobs

In the fourth calendar quarter of 2005, 630,600 people were employed in Hawaii, a new all-time quarterly employment peak. This employment level was 31,400 more than that for the fourth calendar quarter of 2004, or a 5.2% increase. This is the highest quarterly rate of growth in employment in Hawaii in fifteen years. For all of 2005, civilian employment was up 3.7% from 2004.

Total labor force increased 4.9% in the fourth calendar quarter of 2005 to 647,750. For the year, Hawaii civilian labor force was up 3.2% from 2004.

Hawaii unemployment rate (seasonally not-adjusted) was down in the fourth calendar quarter of 2005 to 2.6% compared to the 2.9% unemployment rate in the fourth calendar quarter of 2004. This is the fifth straight quarter that Hawaii's unemployment rate has been below 3.0%. According to the U.S. Bureau of Labor Statistics reports Hawaii had the lowest unemployment rate of 2.4% in the nation in December 2005. For the year, Hawaii unemployment rate averaged 2.8% compared to 3.3% for 2004.

Hawaii's total wage and salary jobs increased by 2.7% or 16,000 jobs in the fourth calendar quarter of 2005 than the fourth calendar quarter of 2004. For all of 2005, wage and salary jobs were up 2.8% from 2004. All private sector industries except for Manufacturing and Information showed positive job growth for the fourth calendar quarter of 2005. Four private sector industries added more than two thousand jobs and two more sectors added more than a thousand jobs in the fourth calendar quarter of 2005 compared to the fourth calendar quarter of 2004.

The Natural Resources, Mining and Construction sector added the most jobs in the fourth calendar quarter of 2005 with an increase of 3,450 jobs or 11.3% over the fourth calendar quarter of 2004. Professional and Business Services contributed the next greatest increase with 3,150 jobs or a 4.4% increase. Visitor-related industries also did well, with Transportation, Warehousing, and Utilities adding 2,550 jobs or 8.8%, Food Services and Drinking Places 2,150 jobs or 3.9%, and Retail Trade 1,750 jobs or 2.5%. With an increase of 1,550 jobs (2.8%), Health Care and Social Assistance rounds out the list of the sectors with the highest job growth.

During the fourth calendar quarter of 2005, two private sector industries lost jobs compared with the fourth calendar quarter of 2004: Information lost 300 jobs or 2.7% and Manufacturing was down 250 jobs or 1.6% of its employment.

Compared with the fourth calendar quarter 2004, the number of jobs decreased by 1,200 or 1.0% in the government sectors for the fourth calendar quarter of 2005. While Federal government and local government expanded their jobs by 0.2% and 1.5%, respectively, State government lost 2.0% of its jobs, which caused the total government jobs to decrease.

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	607,750	0.2	583,200	1.2	4.0
2001	613,000	0.9	586,750	0.6	4.3
2002	608,800	-0.7	584,050	-0.5	4.1
2003	612,500	0.6	588,650	0.8	3.9
2004	615,800	0.5	595,750	1.2	3.3
2005[1)]	635,600	3.2	617,950	3.7	2.8

[1)] *Preliminary.*

Source: Hawaii State Department of Labor and Industrial Relations.

Income and Prices

Hawaii total personal income rose 6.5% during the third calendar quarter of 2005 (the period for which the latest data are available from the Bureau of Economic Analysis) over the third calendar quarter of 2004. Ranked by rate of growth, the greatest increase was seen in Proprietors' Income followed by Supplements to Wages and Salaries, Wage and Salary Disbursements, Personal Current Transfer Receipts and Dividends, Interest, and Rent. Contributions for Government Social Insurance, which is subtracted from personal income, also increased. Year-to-year quarterly earnings increased for all sectors except for Information and Finance and Insurance.

Nominal personal income, not adjusted for inflation, rose $2.7 billion or 6.5% in the third calendar quarter of 2005 compared to the third calendar quarter of 2004. Wage and salary disbursements grew by about $1.6 billion or 6.5% in the third calendar quarter of 2005. Wages and salaries accounted for about 58% of personal income.

Supplements to Wages and Salaries, consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits, increased by $586 million or 8.9% in the third calendar quarter of 2005 compared to the third calendar quarter of 2004. Proprietors' Income, the income most closely related to entrepreneurial activity, grew by $304 million or10.7% in the third calendar quarter of 2005 compared to the third calendar quarter of 2004.

Dividends, Interest, and Rent rose by $162 million or 2.6% in the third calendar quarter of 2005. Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by $276 million or 5.2% for the quarter. Contributions to Government Social Insurance, payments subtracted from personal income, increased $197 million or 5.8%.

Earnings increased across most private sector industries between the third quarter of 2004 and the third calendar quarter of 2005. In dollar terms, the largest increases came in Natural Resources, Mining and Construction followed by Health and Social Assistance, Retail Trade, and Professional and Technical Services. Federal Government earnings increased 4.1% and State and Local Government earnings increased 4.9%.

Honolulu's inflation rate increased 3.1% in the first six months of 2005 down slightly from the 3.3% increase for the second six months of 2004. Honolulu's rate was 0.1% higher than the 3.0% inflation experienced for the nation during the first six months of 2005. The Honolulu increase was produced by the Housing component increasing 4.0% and Transportation, mostly fuels, increasing 4.4%.

Table 4

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

Series	Third Quarter 2004	Third Quarter 2005	Percent Change
Personal Income	41,521	44,210	6.5
Derivation of Personal Income			
Earnings by place of work	33,416	35,863	7.3
Wage and salary disbursements	23,986	25,545	6.5
Supplements to wages and salaries	6,588	7,174	8.9
Proprietors' income	2,841	3,145	10.7
Dividends, interest, rent	6,226	6,388	2.6
Personal current transfer receipts	5,284	5,560	5.2
Less: Contributions for government social insurance	3,405	3,602	5.8
Earnings by Industry	33,416	35,864	7.3
Farm	220	248	12.7
Nonfarm	33,196	35,616	7.3
Private	22,808	24,772	8.6
Forestry, fishery, other	55	62	12.7
Mining	38	41	7.9
Utilities	266	322	21.1
Construction, etc	2,293	2,724	18.8
Manufacturing	810	847	4.6
Wholesale trade	976	1060	8.6
Retail trade	2,248	2,441	8.6
Transportation and Warehousing	1,341	1,484	10.7
Information	712	686	-3.7
Finance and Insurance	1,237	1,228	-0.7
Real Estate and Rental and Leasing	1,172	1,309	11.7
Professional and Technical Services	1,877	2,048	9.1
Management of Companies and Enterprises	735	756	2.9
Administrative and Waste Services	1,355	1,514	11.7
Educational Services	459	512	11.5
Health Care and Social Assistance	2,861	3,117	8.9
Arts, Entertainment, and Recreation	449	482	7.3
Accommodation and Food Services	2,860	2,979	4.2
Other Services, except Public Administration	1,066	1,159	8.7
Government and government enterprises	10,389	10,844	4.4
Federal, civilian	2,579	2,689	4.3
Federal, military	3,726	3,872	3.9
State and local	4,083	4,284	4.9

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, December 20, 2005.

Table 5

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

YEAR	ANNUAL AVERAGE	% CHANGE
1996	30,122	0.7
1997	31,002	2.9
1998	31,757	2.4
1999	32,646	2.8
2000	34,451	5.5
2001	35,126	2.0
2002	36,371	3.5
2003	38,126	4.8
2004	41,176	8.0
2005[1)]	44,047	7.0

[1)] DBEDT Forecast based on the data for the first two quarters of 2005 (see table2).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 6

CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U), AND SELECTED ITEMS, FOR U.S. AND HONOLULU: 1996-2005
(1982-1984 = 100)

		HONOLULU								
Year	U.S.	All Items	Food & Beverages	Housing	Apparel	Transpor-tation	Medical Care	Recreation[1)]	Education & Comm[1)]	Other Goods & Services
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	NA	NA	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	NA	NA	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2001	177.1	178.4	169.5	179.1	101.0	174.5	[2)]	101.6	104.6	289.3
2002	179.9	180.3	172.0	181.2	102.6	170.9	[2)]	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	[2)]	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005 [3)]	193.2	195.0	184.7	199.9	104.9	188.2	[2)]	98.5	115.8	318.6

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half year previous.
[1)] New Indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
[2)] No data was available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
[3)] First half year.
Source: U.S. Bureau of Labor Statistics, February 23, 2005.

Tourism

During the fourth calendar quarter of 2005, both the total number of visitor arrivals and the average daily visitor census were up from the fourth calendar quarter of 2004. Substantial increases in domestic visitor arrivals and days combined with a moderate increase in international visitor arrivals and days to produce the gains made during the quarter.

The total number of visitors arriving by air was up 5.7% in the fourth calendar quarter of 2005 from the fourth calendar quarter of 2004. This is an increase of about 97,000 visitors compared with the fourth calendar quarter of 2004. The overall quarterly increase in arrivals resulted from increases in both domestic visitor arrivals and international arrivals. Arrivals on domestic flights were up 7.2%, while the number of travelers on international flights increased by 2.2%, comparing the fourth calendar quarter of 2005 to that of 2004.

Considering the different major market areas, the U.S. West market showed about 55,850 more visitors or an 8.2% increase in the fourth calendar quarter 2005 from the fourth calendar quarter 2004. Arrivals from the U.S. East market also contributed to growth, increasing 4.1% or by about 16,850 visitors. The Japan market was down 1.8% or about 7,050 visitors over the fourth calendar quarter of 2004.

The total average daily visitor census was up about 10,150 visitors a day or a 6.0% increase in the fourth calendar quarter of 2005. This total increase was produced by a 6.9% increase in domestic visitors' daily census, those arriving on flights from U.S. Mainland airports, and a 3.3% increase for the international visitors' daily census.

Airline capacity to Hawaii, as measured by the number of available seats flown, was flat in the fourth calendar quarter of 2005. For calendar year 2005, total air seats increased 7.0% from 2004.

Hotel occupancy rates rose 2.9 percentage points from 81.5% in the third calendar quarter of 2004 to 84.4% in the third calendar quarter of 2005, the latest quarter for which hotel occupancy data were available.

Table 7

VISITOR ARRIVALS [1]
Average Length of Stay, Visitor Days, Average Daily Census
(Percentage Change from the Same Period in Previous Year)

	2003	2004	2005 [2]	% Change 2003-2004	% Change 2004-2005
Total Arrivals					
Total	6,380,439	6,912,094	7,379,635	8.33	6.76
Domestic	4,531,289	4,892,960	5,255,098	7.98	7.40
International	1,849,150	2,019,134	2,124,537	9.19	5.22
Average Length of Stay					
Total	9.21	9.08	9.09	-1.44	0.16
Domestic	9.94	9.90	9.92	-0.39	0.21
International	7.43	7.09	7.05	-4.59	-0.59
Visitor Days					
Total	58,782,699	62,761,989	67,112,195	6.77	6.93
Domestic	45,036,982	48,441,764	52,134,002	7.56	7.62
International	13,745,717	14,320,225	14,978,193	4.18	4.59
Average Daily Census					
Total	161,048	171,481	183,869	6.48	7.22
Domestic	123,389	132,355	142,833	7.27	7.92
International	37,659	39,126	41,036	3.89	4.88

1) Staying overnight or longer.

2) Preliminary.
Source: Hawaii State Department of Business, Economic Development & Tourism.

Table 8

HOTEL OCCUPANCY RATE
(in percent)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.5
2004[1)]	80.2	75.7	81.5	73.4	77.8
2005	84.2	78.5	84.4	NA	NA

NA Not available.
[1)] Source data revised.

Quarterly averages are computed by Hawaii State Department of Business, Economic Development & Tourism Hospitality Advisors LLC monthly averages.
Sources: Hawaii State Department of Business, Economic Development & Tourism and PKF — Hawaii and Hospitality Advisors LLC.

Construction

Hawaii's construction industry continued to expand in the third calendar quarter of 2005. Private building authorizations were higher than the already high level reached in the third calendar quarter of 2004. Construction jobs continued to grow and real estate demand remained high.

Wage and salary jobs in the construction industry were up 10.6% to 32,400 from the calendar year 2004 to 2005. The Natural Resources, Mining and Construction jobs category is currently 99% construction jobs and 1.0% mining jobs. Construction jobs grew in all four counties in 2005. City and County of Honolulu construction jobs increased 10.0%, Hawaii County increased 7.9%, Maui County construction jobs were up 18.0%, and Kauai County construction jobs were up 7.4%.

Median sale prices for both single family and condominium resales in Honolulu continued to increase, while units sold stabilized in 2005. The single-family median price was up 28.3% to $590,000 and the median - condominium price was up 29.0% to $269,000. The number of single-family unit resales was down 1.8% and condominium unit resales were up 1.3%.

Total value of private building authorizations increased 75.8% for the third calendar quarter of 2005 from the third calendar quarter of 2004. The value of residential permits was up 80.9%, the value of commercial and industrial permits was up 201.6%, and the value of additions and alterations was up 6.2%.

The value of Maui County private building permits increased 178.9% and the value of Hawaii County authorizations increased 104.4% for the third calendar quarter of 2005 from the third calendar quarter of 2004. The value of Honolulu's total private authorizations was up 19.6% and that of Kauai permits increased 5.5%. From the beginning of the third calendar quarter of 2004, Kauai County permit value data are for residential units only. The statewide number of single-family unit authorizations increased 49.1% and that of multi-family units authorized were up 106.9% in the third calendar quarter of 2005 compared with the third calendar quarter of 2004.

Government contracts awarded grew 68.0% from the third calendar quarter of 2004 to the third calendar quarter of 2005. The large increase is the result of the awarding of several multi-year Navy contracts. State Government Capital Improvement Project expenditures (CIP) were up for the third calendar quarter by 23.1% to $166 million for the third calendar quarter. The largest share of the CIP expenditure was from General Obligation bond funds, followed by Federal funds and Special funds.

The Honolulu Construction Cost Index for Single Family Residences rose by 8.6% in the third calendar quarter of 2005, over the third calendar quarter of 2004, while the comparable index for high-rise buildings rose by 5.2%.

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED
(in millions of dollars and percentage change from the previous period)

			Private Building Authorizations 4)									
Year	Contracting Tax Base 1)	%	Private Authorizations	%	Residential 4)	%	Commercial & Industrial 2)	%	Additions/ Alterations	%	Government Contracts Awarded	%
1996	3,285.1	4.8	1,117.8	-27.0	487.0	-34.7	252.8	-31.4	378.0	-9.5	885.5	80.6
1997	2,944.4	-10.4	1,179.2	5.4	542.5	11.4	264.5	4.4	372.2	-1.5	615.6	-30.5
1998	3,016.0	2.4	1,054.3	-10.5	485.5	-10.5	205.6	-22.1	363.2	-2.4	685.5	11.4
1999	2,991.2	-0.8	1,320.2	25.2	628.8	29.5	306.2	48.9	385.3	6.1	584.8	-14.7
2000 3)	3,613.5	20.8	1,513.1	14.6	800.1	27.2	246.2	-19.6	466.2	21.1	810.9	38.7
2001	3,766.4	4.2	1,585.7	4.8	882.4	10.3	329.1	33.7	374.2	-19.8	715.7	-11.7
2002 4)	4,274.9	13.5	1,772.0	11.8	1,112.9	26.1	254.2	-22.8	404.9	8.2	768.3	7.3
2003 4)	4,536.3	6.1	2,352.7	32.8	1,336.0	20.0	507.9	99.8	508.8	25.7	633.4	-17.6
2004 4)	4,921.5	8.5	2,726.5	15.9	1,767.7	32.3	303.3	-40.3	655.6	28.9	1,384.6	118.6
2005 4)	NA	NA	3,492.0	28.1	2,259.3	27.8	433.5	42.9	799.1	21.9	725.1	-47.6

NA Not available

1) *Formerly, "Value of Construction Completed," subject to revision by Hawaii State Department of Taxation.*
2) *Includes hotels.*
3) *Kauai County data for November consist of residential data only.*
4) *Beginning 2002, Kauai data available for residential only.*

Source: Hawaii State Department of Taxation; county building departments; First Hawaiian Bank, Building Industry Magazine (various issues), and tabulations by Hawaii State Department of Business, Economic Development & Tourism.

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY
(in thousands of dollars and percentage change from the previous period)

Year	State	%	City & County of Honolulu	%	Hawaii County	%	Kauai County	%	Maui County	%
1996	1,117,760	-27.0	698,697	-28.8	171,017	-36.0	101,981	29.2	146,065	-28.6
1997	1,179,182	5.5	772,825	10.6	155,776	-8.9	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.6	624,227	-19.2	178,220	14.4	88,196	-9.8	163,640	7.1
1999	1,320,218	25.2	706,358	13.2	243,852	36.8	140,846	59.7	229,162	40.0
2000 1)	1,512,601	14.6	694,223	-1.7	321,704	31.9	141,313	0.3	355,360	55.1
2001	1,585,739	4.8	682,660	-1.7	380,248	18.2	210,094	48.7	312,738	-12.0
2002	1,772,028	11.7	876,051	28.3	449,600	18.2	172,661	28.6	273,716	-12.5
2003	2,352,720	32.8	1,109,568	26.7	620,634	38.0	153,242	-11.2	469,277	71.4
2004	2,726,536	15.9	1,320,552	19.0	826,494	33.2	130,659	-14.7	448,831	-4.4
2005 2)	3,491,964	28.1	1,364,030	3.3	1,008,386	22.0	288,132	120.5	831,416	85.2

1) *Kauai County data for November consist of residential data only.*
2) *Beginning 2002, Kauai data available for residential only.*

Source: County Building Permits..

Federal Government Expenditures in Hawaii

Total federal expenditure reached $12.2 billion in the federal fiscal year ending September 30, 2004, an increase of 8.1% over the previous year. Between federal fiscal years 1997 and 2004, the annual average growth rate for Federal expenditures was 5.9%. Overall, federal activity in Hawaii produces about 14% of GSP, much of which is defense-related. Hawaii's Federal government sector employed 30,800 civilian and 53,800 armed forces personnel in calendar year 2004.

According to the U.S. Department of Defense, expenditures on payroll and procurement contracts in Hawaii increased from $3.2 billion in fiscal year 1994 to $5.1 billion in the federal fiscal year ending 2004. Military spending in Hawaii remains a relatively stable and important source of outside income. Over that period, payroll outlays grew from $2.4 billion in federal fiscal year 1994 to $3.4 billion in federal fiscal year 2004. Payroll, however, slipped from 75% of total Hawaii Federal defense spending in federal fiscal year 1994 to 66% in federal fiscal year 2004. Procurement contracts accounted for $0.8 billion or 25% of total defense spending in federal fiscal year 1994, rising to $1.7 billion, or 34% of the total defense spending in federal fiscal year 2004. Between federal fiscal year 2003 and 2004, the total military spending rose 5.1% while payroll alone rose 11%.

The latest data from the U.S. Department of Commerce indicate that the total earnings of Federal government personnel in the federal fiscal year 2005 were 7.2% higher than a year earlier. Total federal government jobs increased 1.0% in federal fiscal year 2004 compared to 2003.

In 2005, the U.S. Senate approved more than $354 million in Federal funds for 16 military construction projects in Hawaii during the federal fiscal year beginning October 1, 2005. Hawaii is also expected to receive about $413 million under the Defense Appropriation Bill. These amounts are in addition to day-to-day defense operations and payroll outlays.

Banks and Other Financial Institutions

As of June 30, 2005, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies were reported at $26.6 billion, a 8.07% increase from June 30, 2004. The three State-chartered banks accounted for $26.0 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, surface transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and interisland cargo shipments for the fiscal years 2003, 2004, and 2005 amounted to 16.2 million short tons, 18.7 million short tons, and 20.2 million short tons, respectively.

Hawaii continues to be an attractive market for the cruise ship industry. The number of cruise visitor arrivals has increased from 92,250 in 1996 to 229,400 in 2003 to 239,668 in 2004. Nowegian Cruise Lines (NCL) currently homeports three cruise ships, the Pride of America, the Pride of Aloha and the Norwegian Wind, providing the State with year round inter-island service. A fourth ship, the Pride of Hawaii is anticipated to begin operations in June 2006. The State's Harbors Division has several projects under design to improve certain terminal facilities statewide to accommodate the increased activity. The construction of a new cruise passenger terminal at Pier 2, Honolulu Harbor, began in April 2005 and is expected to be completed in the spring of 2006. Design of subsequent improvements at Pier 2, including construction of a boarding gangway and offices for U.S. Customs is ongoing.

Hawaii Superferry, Inc., a private ferry operator, has secured financing to complete construction of two new inter-island ferry vessels and commence ferry service operations that will initiate a roll on/roll off high-speed daily service for the transport of passengers and vehicles, including cars, trucks and buses. Operations are planned between the harbors of Honolulu, Kahului, Nawiliwili and Kawaihae. Service is anticipated to begin in the second quarter 2007, starting with one vessel during the first year and a second vessel in the following 18 to 24 months.

The Harbor System is comprised of ten harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu

Harbor, Kalaeloa Barbers Point Harbor and Kewalo Basin on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaumalapau Harbor on the island of Lanai, comprising the Maui District.

The State uses nine harbors, with the exception of Kewalo Basin, to facilitate the movement of goods from the mainland, foreign and interisland ports. The number of commercial vessels entering all ports was 9,134 in fiscal year 2003, and 8,993 in fiscal year 2004, and 9,714 in fiscal year 2005.

Honolulu Harbor is the hub of the State's Statewide System of Harbors, where it serves as a major distribution point of overseas cargo to the neighbor islands and a primary consolidation center for export of overseas cargo. Overseas and interisland cargo tonnage handled through the Honolulu Harbor was 8.0 million short tons in fiscal year 2003, 9.0 million short tons in fiscal year 2004, and 9.6 million short tons in fiscal year 2005. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

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

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

According to data from the Airports Council International, HNL is the 56th busiest air terminal in the world, ranking 27th in the United States in total passengers serviced in 2004. In 2004, HNL recorded 320,520 aircraft operations. For the year 2004 there was a 3.6% increase in passengers at HNL to 19,370,796. In fiscal year 2005, overseas domestic, international, and inter-island passengers to Hawaii increased.

Inter-island air travel in Hawaii is primary served by Aloha Airlines and Hawaiian Airlines. Inter-island traffic flights were reduced based on a federal exemption to collaborate on schedules to increase yields of passenger loads. Aloha Airlines and Hawaiian Airlines filed for Chapter 11 bankruptcy on December 30, 2004 and March 21, 2003, respectively. Aloha and Hawaiian Airlines have exited from bankruptcy.

Since January 2003, a number of major airlines have announced the addition of new routes to Hawaii. American Airlines added a daily flight from Chicago to Kahului, a second daily flight from Chicago to Honolulu, a second flight from Los Angeles to Kona and a second flight from Los Angeles to Lihue. Continental Airlines added daily service from Houston to Kahului and Delta Airlines added daily flights from Cincinnati and Atlanta respectively to Honolulu. Hawaiian Airlines increased frequency to Kahului from Portland and San Diego. Hawaiian also added a daily flight from Las Vegas to Honolulu.

In November 2004, HMY Airways launched new service from Victoria to Honolulu and added capacity in its Vancouver routes to Honolulu and Kahului in December 2005 for the peak Canadian winter travel season. Also in December 2004, Northwest Airlines started daily Portland-Honolulu; United Airlines launched a daily Chicago-Kahului-Kona service; Continental Airlines started daily Nagoya-Honolulu service; and Delta Airlines added a second daily Atlanta-Honolulu flight.

In April 2005 ATA Airlines launched Phoenix-Honolulu daily service, increased Los Angeles-Kahului service and launched service from Las Vegas to Honolulu and Kona. Aloha Airlines increased service from Orange

County to Hawaii to five daily flights and launched San Diego-Honolulu, Las Vegas-Honolulu, San Diego-Kahului, Sacramento-Kahului and Oakland-Kona, and suspended service from Burbank and Vancouver. Delta Airlines launched service from Salt Lake City to Kahului from Atlanta to Kahului, and from Atlanta to Kona via Salt Lake City. Northwest Airlines will offer services from Oakland to Honolulu, Kahului, Kona and Lihue; and Los Angeles, Portland and San Francisco to Honolulu. In addition, Northwest Airlines operates seasonal Anchorage-Kahului-Honolulu service from June 10 to August 22. Hawaiian launched service from San Jose to Honolulu. America West resumed service to Hawaii with nonstop flights from Phoenix to Honolulu and from Phoenix to Kahului. A new airline, WestJet, began twice a week service from Vancouver to Honolulu and to Kahului.

In July 2005, Northwest Airlines began service from Seattle to Kahului and Kona.

In 2006, United Airlines plans to begin service from the West Coast to Hilo. In February, 2006, Continental added a Los Angeles stop so it now has daily Houston-Los Angeles-Kahului flights. In March 2006, American West will begin service from Las Vegas to Kahului from Phoenix to Lihue, and from Phoenix to Kona. In April 2006, Mesa Air plans to begin interisland service. In June 2006, Hawaiian Airlines will begin service from San Diego to Kahului. Air Japan Airlines will launch charter services from Tokyo to Honolulu. China Airlines Taipei-Honolulu flights will increase from 2 to 3 times daily. EVA Airways resumed Taipei-Honolulu service. Charter carrier, Harmony Airways, increased service from Vancouver to Honolulu and Kahului and added flights from Abbotsford, Kelowna and Victoria, Canada to Hawaii.

Charter carriers also added service to Hawaii in 2003. Hawaiian Vacations added two new routes to Kahului from Boise and Spokane, once a week. Pleasant/ATA added two weekly flights to Lihue from Los Angeles and San Francisco. Suntrips added a weekly flight from Oakland to Lihue. The total net domestic air seats added to Hawaii in 2003 is estimated at over 332,000.

Overseas domestic, international, and interisland passengers to Hawaii increased in fiscal year 2005. Inter-island flights were reduced based on a federal exemption to collaborate on schedules to increase yields of passenger loads. Aloha Airlines and Hawaiian Airlines filed for Chapter 11 bankruptcy on December 30, 2004 and March 21, 2003, respectively. Hawaiian Airlines has exited from bankruptcy.

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

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

The following table shows the motor vehicle registrations in the State for the years 2000 to 2005, inclusive.

Table 11

MOTOR VEHICLE REGISTRATION

YEAR	VEHICLES
2000	941,242
2001	967,151
2002	987,598
2003	1,030,843
2004	1,070,012
2005	1,119,838

Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2005-2006 school year, system enrollment decreased from the 2004-2005 school year to a total of 181,355 in 285 public 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 regular education has decreased, while the number of charter school students has increased.

In the fall of 2004, 50,569 students attended State colleges and universities, 20,549 of them on the UH Manoa Campus. The UH offers bachelors, masters, and doctorate degrees, as well as a certificate in teaching. The system of community colleges, within the UH system, offers associate in arts and associate in science degrees and certificates, including certificates of achievement.

In September 2002, the UH broke ground on the John A. Burns Health and Wellness Center (the "Project") in the Kakaako district of Honolulu. The Project is anchored by the $150 million new university medical center. The Education Administration building opened in April 2005 and the research facility opened in September 2005. The UH is planning the development of phase II of the John A. Burns Center to provide additional research space. In addition, the UH is planning the development of a new facility for the Cancer Research Center of Hawaii. Both projects will be located in Kakaako with estimated completion dates of December 2008. The State expects that the Project will help to attract private investment in the biotechnology industry and to revitalize further the Kakaako area, which lies between downtown Honolulu and Waikiki. The State supports the Project directly through the dedication of a share of its annual tobacco settlement receipts.

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 are carried out by the Housing and Community Development Corporation of Hawaii (the "HCDCH"). The HCDCH 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 HCDCH and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State.

On July 1, 2006, pursuant to Act 196, SLH 2005, the HCDCH will be bifurcated into the Hawaii Public Housing Administration and the Hawaii Housing Finance and Development Administration. The Hawaii Public Housing Administration will perform the function of developing and maintaining public housing. The Hawaii Housing Finance and Development Administration will perform the function of housing finance and development. The assets, obligations, and functions of the HCDCH will be transferred to the Hawaii Public Housing Administration or the Hawaii Housing Finance and Development Administration.

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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, 2005 AND

INDEPENDENT AUDITORS' REPORT

(commences on page B-16)

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APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

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

INFORMATION ABOUT INDEBTEDNESS

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

SUMMARY OF TOTAL INDEBTEDNESS OF THE STATE OF HAWAII

GENERAL OBLIGATION BOND INDEBTEDNESS
As of July 1, 2005

General obligation bonds outstanding		$ 4,265,903,181
Less excludable reimbursable general obligation bonds [1)]		
Highways	$ 94,297,444	
Airports	55,550	
Harbors	111,256	
University of Hawaii	10,506,922	
Parking facilities	1,096,295	
Hawaiian Home Lands	1,240,473	
Subtotal excludable reimbursable general obligation bonds	$107,307,941	
Less all general obligation bonds maturing in the current year	$269,778,550	$ 377,086,491
Net general obligation bonds outstanding		$3,888,816,690

REVENUE BOND INDEBTEDNESS [2)]
As of July 1, 2005

Revenue bonds outstanding:		
Airports:		
Airports system	$673,695,000	
Airports special facility	38,860,000	$ 712,555,000
Housing		
Single family mortgage purchase	363,360,000	
Multifamily	136,846,208	500,206,208
Harbors:		
Revenue		185,255,000
Highway:		
Revenue		297,605,000
Hawaiian home lands		8,650,000
University revenue projects		178,955,000
Total revenue bonds outstanding		$1,883,226,208

SPECIAL ASSESSMENT BONDS [3]
As of July 1, 2005

Special Assessment Bonds outstanding:	
Improvement district bonds	$900,000

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS [4]
As of July 1, 2005

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$ 711,745,000
Utilities serving the general public	742,493,000
Industrial enterprises	19,562,500
Processing enterprises	7,700,000
Total special purpose revenue bonds outstanding	$1,481,500,500

1) See "DEBT STRUCTURE—Exclusions" and "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix A for exclusions and sources of reimbursement.

2) All revenue indebtedness is payable solely from the revenues derived from rates, rentals, fees and charges except for the revenue bonds issued for the airports system, which are payable from both the revenues of the airports system derived from rates, rentals, fees and charges and from the aviation fuel tax, and except for a portion of the revenue bonds issued for the University of Hawaii, which is payable from both the revenues of the University derived from tuition, fees and charges and from tobacco settlement funds.

3) All special assessment indebtedness is payable solely from receipts derived from assessments against the real property specially benefited from the sale of the bonds.

4) All special purpose revenue indebtedness is payable solely from receipts derived from payments by special purpose entities or persons under contract or from any security for such contract or special purpose revenue bonds.

The following table presents a summary of the calculation of the State's constitutional debt limit as of July 1, 2005.

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	2002-2003	2003-2004	2004-2005
Total General Fund revenues exclusive of Grants from the federal government	$ 3,788,864,069	$ 3,907,745,914	$ 4,486,358,701
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	22,811,877	13,654,184	14,898,119
Net General Fund revenues	$ 3,766,052,192	$ 3,894,091,730	$ 4,471,460,582

Sum of net General Fund revenues for preceding three fiscal years	$12,131,604,504
Average of preceding three fiscal years	$ 4,043,868,168
18½% of average net General Fund revenues of the three preceding years ended June 30, 2003, 2004 and 2005	$ 748,115,611[1]

1) The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2005, and on the Bonds, after exclusions permitted by the Constitution, is $533,619,678 in the fiscal year ending June 30, 2009.

GENERAL OBLIGATION BONDS OUTSTANDING AS OF FEBRUARY 1, 2006

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds [1)]			
From State Special Funds for			
Highways	$ 86,699,125		
Airports	47,125		
Commercial Harbors	100,479		
Small Boat Harbors [2)]	7,219,753		
Hawaiian Home Lands	1,170,689		
University of Hawaii	8,838,980		
Parking Facilities	822,281		
Waiahole Water System [2)]	8,251,204		
Convention Center [2)]	242,008,162		
Total for Special Funds	$ 355,157,798		
Total Reimbursable General Obligation Bonds		$ 355,157,798	8.66
Non-Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$3,744,871,051		
Total Non-reimbursable General Obligation Bonds		$3,744,871,051	91.34
Total General Obligation Bonds Issued and Outstanding		$4,100,028,849	100.00

1) See discussion above concerning sources of reimbursement, including taxes. The figures in this table should not be taken as an indication that in all instances the reimbursement to the General Fund will in fact be made or that such reimbursement will be made in whole.

2) Not excludable for debt limit purposes.

SUMMARY OF DEBT SERVICE
AS OF FEBRUARY 1, 2006

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 February 2006 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 DI[2]		
Fiscal Year Ending June 30	Total Principal Outstanding as of February 1, 2006	Total Principal Payable	Total Interest Payable	Total Debt Service Payable	Less Amounts Reimbursable to General Fund[1]	Net Debt Service Payable	Total Principal Payable	Total Interest Payable	Total Debt Servi Payable
2007	$3,980,668,852	$310,119,530	$221,553,739	$531,673,269	$63,363,704	$468,309,565	$ 0	$15,940,773.61	$15,940,773.6
2008	3,670,549,322	323,825,308	207,843,936	531,669,244	60,766,751	470,902,493	0	16,978,338.76	16,978,338.7
2009	3,346,724,014	338,569,475	193,099,635	531,669,109	55,461,670	476,207,439	0	16,978,338.76	16,978,338.7
2010	3,008,154,539	319,909,540	161,174,152	481,083,692	40,431,190	440,652,502	13,925,000	16,978,338.76	30,903,338.7
2011	2,688,244,999	327,225,000	131,649,265	458,874,265	43,219,947	415,654,318	14,485,000	16,416,788.76	30,901,788.7
2012	2,361,019,999	285,865,000	115,625,481	401,490,481	35,558,632	365,931,849	15,100,000	15,803,926.26	30,903,926.2
2013	2,075,154,999	298,275,000	100,672,999	398,947,999	31,187,797	367,760,202	15,760,000	15,143,926.26	30,903,926.2
2014	1,776,879,999	267,350,000	85,574,886	352,924,886	21,403,687	331,521,199	16,520,000	14,381,766.26	30,901,766.2
2015	1,509,529,999	265,185,000	71,865,956	337,050,956	20,417,698	316,633,258	17,335,000	13,571,056.26	30,906,056.2
2016	1,244,344,999	195,670,000	58,819,229	254,489,229	13,303,762	241,185,467	18,165,000	12,736,021.26	30,901,021.2
2017	1,048,674,999	218,700,000	48,347,186	267,047,186	11,226,374	255,820,812	19,005,000	11,899,121.26	30,904,121.2
2018	829,974,999	160,330,000	38,494,571	198,824,571	4,866,558	193,958,013	19,935,000	10,965,921.26	30,900,921.2
2019	669,644,999	122,080,000	31,802,582	153,882,582	426,158	153,456,424	20,925,000	9,978,021.26	30,903,021.2
2020	547,564,999	105,510,000	26,027,582	131,537,582	426,494	131,111,088	21,970,000	8,933,827.50	30,903,827.5
2021	442,054,999	112,125,000	20,549,469	132,674,469	426,778	468,309,565	23,065,000	7,838,302.50	30,903,302.5
2022	329,929,999	116,780,000	14,713,291	131,493,291	422,774	131,070,517	24,215,000	6,685,892.50	30,900,892.5
2023	213,149,999	80,440,000	9,136,086	89,576,086	423,147	89,152,939	25,425,000	5,476,155.00	30,901,155.0
2024	132,709,999	75,800,000	5,204,054	81,004,054	424,937	80,579,117	26,700,000	4,204,905.00	30,904,905.0
2025	56,909,999	37,865,000	1,843,448	39,708,448	425,635	39,282,813	28,035,000	2,870,280.00	30,905,280.0
2026	19,044,999	19,045,000	461,625	19,506,625	426,369	19,080,256	29,435,000	1,468,530.00	30,903,530.0

1) *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 paym 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 particu 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 indebtedne 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 $63,363,7 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2007 only $21,158,916 is an excludable reimbursement for purposes of the debt limit calculation under Constitution. See Debt Structure - Reimbursement to the State General Fund for Debt Service in Appendix A for the sources of reimbursement, including taxes.*

2) *As of the date of delivery thereof.*

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

Fiscal Year	Population [1]	General Obligation Bonded Debt [2&3]	Less Debt Service Monies Available [2]	Net General Obligation Bonded Debt	Net General Obligation Bonded Debt Per Capita
1996	1,204	$2,841,069	$240	$2,840,829	$2,399
1997	1,212	$3,075,862	$435	$3,075,427	$2,580
1998	1,215	$3,363,517	$338	$3,363,179	$2,824
1999	1,210	$3,166,880	$223	$3,166,657	$2,670
2000	1,212	$3,278,479	$258	$3,278,221	$2,705
2001	1,225	$3,225,635	$110	$3,225,525	$2,629
2002	1,241	$3,568,001	$79	$3,567,922	$2,884
2003	1,249	$3,634,738	$148	$3,634,590	$2,910
2004	1,263	$3,954,192	$72	$3,954,120	$3,128
2005	1,278	$4,256,633	$184	$4,256,449	$3,331

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

Certificates of Participation

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

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

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

Securities in Which State Funds May Be Invested

The General Fund, the various Special Funds and other funds are held in the State Treasury. The moneys held in the State Treasury, which in the judgment of the Director of Finance are in excess of the amounts necessary to meet the immediate requirements of the State, are invested in securities prescribed in Section 36-21, HRS. The securities in which State funds may be invested include the following: (a) U.S. Treasury obligations, including Treasury bills, notes and bonds; (b) obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest; (c) time certificates of deposit in federally insured financial institutions; (d) interest bearing accounts with federally insured financial institutions; (e) repurchase agreements with federally insured banks and savings and loan associations; (f) student loan resource securities with a triple A rating;

(g) commercial paper with at least an A1/P1 rating; (h) bankers' acceptances with at least an A1/P1 rating; and (i) money market mutual funds which invest solely in U.S. Treasury obligations or obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. Section 36-21, HRS, prohibits the State from investing in securities which require the State to make any swap, counter or other payments other than the original purchase price plus accrued interest.

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

As of December 31, 2005, 19% of the State's investment portfolio consisted of repurchase agreements with banks, 4% consisted of time certificates with banks, 6% consisted of student loan resource securities with a triple A rating, and 71% consisted of Federal Agency Securities.

Safety of Public Funds

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

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

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

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

Investment Yield

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

As of December 31, 2005, the State earned $19.2 million on its General Fund investments. This amount represents an average return on investment for the General Fund of 3.15%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2000 to 2004. 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, 2004, 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.

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

(AMOUNTS IN THOUSANDS)

	2001	2002	2003	2004	Preliminary 2005
ASSETS:					
Cash	$217,775	$ 52,567	$183,955	$310,117	$153,227
Advances to other funds	–	–	–	–	–
Due from other funds	206,878	140,900	113,600	135,100	131,169
Due from Component Units	6,000	6,000	20,000	20,000	20,000
Receivables					
Taxes	276,900	288,501	283,300	304,900	338,300
Notes	484	404	386	423	6,324
Other	161	160	73	71	5,179
Total receivables	277,545	289,065	283,759	305,394	349,803
Investments	265,025	289,143	46,568	16,585	478,199
TOTAL ASSETS	$973,223	$777,675	$647,882	$787,196	$ 1,132,398
LIABILITIES AND FUND EQUITY					
Liabilities:					
Vouchers payable	$ 82,226	$124,465	$ 69,116	$99,545	$85,918
Other accrued liabilities	53,518	51,160	55,021	55,861	57,900
Due to other funds	6,310	79	148	72	184
Due to Component Units	9,828	11,742	5,769	5,121	9,026
Deferred revenue	16,000	11,500	15,000	7,500	13,800
TOTAL LIABILITIES	$167,882	$198,946	$145,054	$168,099	$166,828
FUND EQUITY:					
Reserves:					
Unrealized receivables	$ 536	$ 522	$ 400	$ 435	$ 6,337
Encumbrances	195,549	220,501	202,949	208,114	201,362
Unencumbered allotments	8,667	8,929	9,013	9,208	10,802
Total reserves	204,752	229,952	212,362	217,757	218,501
Unreserved fund balance:					
Designated for future expenditures	74,235	37,670	23,048	19,600	30,700
Undesignated	526,354	311,107	267,418	381,740	716,369
Total fund equity	805,341	578,729	502,828	619,097	965,570
TOTAL LIABILITIES AND FUND EQUITY	$973,223	$777,675	$647,882	$787,196	$ 1,132,398

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

	2000-2001	% of Total	2001-2002	% of Total	2002-2003	% of Total	2003-2004	% of Total	Preliminary 2004-2005	% of Total
REVENUES:										
General excise tax	$1,626,486	47.46	$1,641,008	50.60	$1,771,629	51.89	$1,893,916	51.06	$2,139,798	50.97
Income tax-corporation	73,857	2.16	33,777	1.04	8,162	0.24	60,653	1.64	90,304	2.15
Income tax-individual	1,113,239	32.48	1,047,946	32.32	1,042,526	30.53	1,193,688	32.18	1,394,360	33.22
Service companies tax	134,583	3.93	93,406	2.88	114,115	3.34	99,505	2.68	108,686	2.59
Liquor licenses and taxes	37,783	1.10	39,091	1.21	41,186	1.21	41,250	1.11	43,737	1.04
Tobacco licenses and taxes	55,074	1.61	64,469	1.99	71,273	2.09	78,383	2.11	84,068	2.00
Insurance premiums tax	72,113	2.10	67,941	2.10	73,240	2.14	78,142	2.11	83,077	1.98
Inheritance and estate tax	17,541	0.51	16,624	0.51	15,524	0.45	9,830	0.27	12,712	0.30
Banks & financial corporation tax	(2,794)	(.08)	4,664	0.14	20,842	0.61	(533)	(0.01)	36,520	0.87
Transient accommodations tax[1]	33,849	0.99	27,271	0.84	766	0.02	6,028	0.15	12,689	0.30
Conveyance tax	7,174	0.21	5,621	0.17	6,517	0.20	9,851	0.27	12,585	0.30
Total taxes	3,168,905	92.47	3,041,818	93.80	3,165,780	92.72	3,470,713	93.57	4,018,536	95.72
Charges for current service and Other revenues	258,132	7.53	201,070	6.20	248,730	7.28	238,595	6.43	179,587	4.28
TOTAL REVENUES	$3,427,037	100.00	$3,242,888	100.00	$3,414,510	100.00	$3,709,308	100.00	$4,198,123	100.00
EXPENDITURES:										
General government	$432,668	13.26	$369,399	11.50	$332,332	10.04	$315,781	9.39	$384,203	10.52
Public safety	149,875	4.59	173,544	5.40	187,167	5.66	187,401	5.57	204,390	5.59
Conservation of natural resources	23,028	0.72	27,726	0.86	29,686	0.90	27,151	0.81	26,841	0.73
Health	307,262	9.41	354,626	11.03	361,804	10.93	368,315	10.95	389,985	10.67
Welfare	523,820	16.05	513,656	15.98	528,519	15.97	565,325	16.81	623,599	17.07
Education:										
Higher	—	—	450,891	14.03	462,453	13.98	459,640	13.67	510,194	13.96
Lower and others	886,526	27.16	1,243,363	38.68	1,328,514	40.15	1,367,845	40.67	1,439,059	39.39
Culture-recreation	32,437	0.99	34,537	1.07	35,250	1.07	34,386	1.02	38,485	1.05
Urban redevelopment & housing	1,295	0.04	1,370	0.04	8,347	0.25	8,333	0.25	7,246	0.20
Economic development and assistance	42,429	1.30	45,475	1.41	34,674	1.05	29,332	0.86	29,790	0.82
Intergovernmental expenditures	25	—	—	—	—	—	—	—	—	—
Retirement & pension contribution[2]	90,765	2.78	—	—	—	—	—	—	—	—
Capital outlay[3]	23,497	0.72	—	—	—	—	—	—	—	—
Miscellaneous[4]	8,115	0.25	—	—	—	—	—	—	—	—
Transfers to:										
Special Revenue Funds	17,714	0.54	—	—	—	—	—	—	—	—
Debt Service Funds	307,326	9.41	—	—	—	—	—	—	—	—
Trust and Agency	150	0.00	—	—	—	—	—	—	—	—
Component Units:										
Hospital Funds	13,000	0.40	—	—	—	—	—	—	—	—
Housing Funds	6,994	0.21	—	—	—	—	—	—	—	—
University Funds	397,346	12.17	—	—	—	—	—	—	—	—
TOTAL EXPENDITURES	$3,264,272	100.00	$3,214,587	100.00	$ 3,308,746	100.00	$3,363,509	100.00	$3,653,792	100.00

1) Act 156, SLH 1998, distributed the Transient Accommodations Tax (TAT) revenues: 44.8% to the counties, 17.3% to the Convention Center 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, any such 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; provided that any TAT collected for the Tourism Special Fund and the tourism-related special funds in excess of $63.292 million for the fiscal year shall be deposited into the general fund. Act 113, SLH 2003 redirected the TAT: 5.3% to the TAT Trust Fund and 32.6% to the Tourism Special Fund; provided that beginning 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 special land and development fund, and the balance of the excess into the general fund.

2) For fiscal years 2001-2002, 2002-2003 and 2003-2004, social security, pension contribution, capital outlay, and miscellaneous expenditures and transfers to component units were reclassified to other functions.

3) For fiscal years 2001-2002, 2002-2003 and 2003-2004, Other Revenues and Transfers to specific Funds were combined in Other Financing Sources (Uses) Section.

REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

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

In September of 2003, the Council revised its forecasted general fund tax revenue growth rate for fiscal year 2004 from 7.7% to 6.2%. Although the projected growth rate decreased from the May estimate for fiscal year 2004, collection amounts increased due to higher than projected fiscal year 2003 actual collections (4.4% growth versus 1.8% projected growth, including $16.5 million in protested fiscal year 2003 franchise tax payments transferred to the litigation claims fund in fiscal year 2004). The Council increased its projected growth rate for fiscal year 2005 based on rapid growth in the construction industry and moderate growth in the visitor industry. Growth rates for fiscal years 2006 onward were left unchanged.

In December 2003, the Council reduced its forecasted general fund tax revenue growth rate for fiscal year 2004 from 6.2% to 5.2%. The Council still believed the primary factors driving Hawaii's economy such as visitor arrivals, construction activity, and consumer spending appeared to be growing very rapidly, but revenues were impacted by technical factors such as weekend effects and variations in tax payment and refund patterns. The impact of recent tax laws changes, especially business incentive tax credits remained unclear.

In January, March, and May 2004, the Council retained its general fund growth rate forecast.

In September 2004, the Council increased its forecasted general fund tax revenue growth rate for fiscal year 2005 from 7.9% to 8.8%. Construction and visitor arrivals are expected to continue to grow. The actual general fund tax revenue growth rate for fiscal year 2004 was 8.3%, as compared to the Council's forecast of 5.2%.

In January 2005, the Council retained its general fund tax revenue growth rate forecast.

In March 2005, the Council, while not significantly changing its assessment of Hawaii's economic condition, revised its forecasted general fund tax revenue growth rates. The fiscal year 2005 increase includes a one-time return of $16.5 million from the Litigated Claims Fund to the general fund that accounts for a portion of the .3% decrease in the fiscal year 2006 projection. The changes for fiscal years 2005 and 2006 are shown below:

	FY 05	FY06
March 2005	10.0%	5.0%
January 2005	8.8%	5.3%
Difference	1.2%	-0.3%

In May 2005, based on actual collections for the first ten months of the fiscal year, the Council increased its general fund tax revenue growth rate for fiscal year 2005 to 14.6%. The Council noted that the revenue increase was due to the strong economy, as well as to technical factors, such as changes in the tax laws and fluctuations in tax payment patterns.

Actual fiscal year 2005 general fund tax revenues increased by 16.0% as compared to the Council's forecast of 14.6%. In September 2005, based on the rapidly growing economy with increases in construction, total personal income, and the visitor industry, the Council increased its forecast from 5.3% to 6.0% for fiscal year 2006 and from 5.2% to 6.6% for fiscal year 2007.

In December 2005, as the economy continued to grow at a rapid pace, the Council increased its general fund tax revenue growth rate from 6.0% to 8.0% for fiscal year 2006 and from 6.6% to 7.5% for fiscal year 2007.

General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for the fiscal years ended June 30, 2005, and estimates for the fiscal years ending June 30, 2006 and June 30, 2007.

GENERAL FUND FINANCIAL PLAN 2005-2007
(Millions of Dollars)

	Actual 2005	Estimated 2006	Estimated 2007
Resources			
Tax Revenues [1]	$3,991.8	$4,316.4	$4,642.0
Non-tax Revenues	463.2	403.5	406.4
Judicial Branch Revenues	31.4	31.5	32.0
Other Revenue			
Sources/Adjustments [2]		2.2	(334.1)
Total Resources	$4,486.4	$4,753.7	$4,746.3
Expenditures:			
Executive			
Operating	4,106.4	4,555.2	5,050.9
Capital Investment	0.0	0.0	0.0
Total Executive	$4,106.4	$4,552.2	$5,050.9
Legislative	28.6	27.9	27.6
Judicial	119.1	124.7	131.9
OHA and Counties	2.5	2.9	2.9
Appropriation Lapses [3]	(72.0)	(45.0)	(45.0)
Total Expenditures	$4,184.6	$4,665.7	$5,168.3
Resources over Expenditures	301.8	88.0	(422.0)
Carry-over Balance	184.6	486.4	574.4
Ending Balance [4]	486.4	574.4	152.4

1) Reflects actual fiscal year 2005 tax revenue collections as reported by the Department of Accounting and General Services.
2) Includes tax credits, rebates, and other measures to be submitted to the 2006 Legislature.
3) Not included as an item in the financial statements under "FINANCIAL STATEMENTS" in Part 1 of this Appendix B nor in the projections of the Council on Revenues. FY 2005 lapses include $28.2 million in lapses due to the conversion of funding for the Department of Commerce and Consumer Affairs from general fund to special funds.
4) Fund balances do not include any Emergency and Budget Reserve Fund balances. See Appendix A "Emergency and Budget Reserve Fund."

Note: Totals may not add due to rounding.
Source: Department of Budget and Finance, December 2005.

In the general fund financial plan, fiscal year revenues are recognized based on receipt while fiscal year expenditures are recognized when appropriations are expended in that year or encumbered. At the end of the fiscal year, encumbrances are not lapsed but are considered to be expenditures. Additionally, the Department of Education, by law, is allowed to carry over all of its unencumbered appropriations to the following fiscal year. For example, $30.6 million carried over from fiscal year 2005 to fiscal year 2006 by the Department of Education did not lapse and was considered to be expended in fiscal year 2005.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2005, and represent about 89% of the total General Fund revenues. Set forth below are the actual General Fund tax revenues for the fiscal year ended June 30, 2005, and estimated tax revenues for the fiscal years ending June 30, 2006, and June 30, 2007, based on the Governor's revisions to the Council on Revenues' December 2005 projection.

GENERAL FUND TAX REVENUES
(Thousands of Dollars)

	Actual 2003-2004	Actual 2004-2005	Estimated 2005-2006	Estimated 2006-2007
General Excise and Use	$1,900,377	$2,136,603	$2,312,503	$2,520,872
Income—Individual	1,168,570	1,381,059	1,497,617	1,624,970
Income—Corporation	56,653	85,605	127,099	90,453
Public Service Company	99,505	108,686	116,899	129,161
Insurance Premiums	78,142	83,077	83,885	87,390
Tobacco & Licenses	78,400	84,079	83,805	84,199
Liquor & Permits	41,250	43,737	45,360	46,642
Banks & Other Financial Corp.	(554)	36,520	11,548	13,785
Inheritance & Estate	9,830	12,712	-	-
Miscellaneous	8,564	13,072	21,693	25,686
Transient Accommodation	5,628	12,389	16,020	18,831
TOTAL BEFORE ADJUSTMENTS	$3,446,385	$3,997,539	$4,316,429	$4,641,989
GROWTH RATE	8.3%	16.0%	8.0%	7.5%

Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for the first seven months of the 2006 fiscal year and the first seven months of the 2005 fiscal year, in each case as reported by the State Director of Taxation. The collections from all sources have exceeded $2.901 billion, an increase of $311.2 million over that realized during the corresponding period in the previous year. Cumulative general fund accruals for the first seven months of fiscal year 2006 are up 12.2% over the same period in fiscal year 2005.

	July 1 to January 31	
	2005-2006	2004-2005
State Tax Collections—Source of Revenue		
Banks/Financial corporations[1]	7,343,127	4,252,110
Conveyances[1]	33,632,691	14,453,087
Employment security contributions	81,647,603	73,337,971
Fuel	95,272,684	94,880,080
General excise, license and registration fees	198,435	258,798
General excise and use [1]	1,357,983,295	1,196,142,123
Income—corporations:		
Declaration of estimated taxes	86,754,167	62,172,764
Payment with returns	7,352,551	6,350,025
Refunds	(27,610,708)	(43,213,690)
Income—individuals:		
Declaration of estimated taxes	188,557,254	155,357,789
Payment with returns	50,412,342	34,710,276
Withholding tax on wages	729,699,278	715,424,109
Refunds	(72,327,388)	(66,788,128)
Inheritance and estate	3,474,149	8,488,239
Insurance premiums	38,430,378	36,708,005
Liquor and permits	24,288,544	24,908,531
Motor Vehicle Tax/Fees, etc.[2]	62,772,003	55,820,698
Public Service companies	60,096,117	55,517,958
Tobacco and licenses	51,857,940	49,860,094
Transient Accommodations Fees/Time Share Occupation fees	6,115	4,620
Transient Accommodations Tax/Time Share Occupation Tax[1]	120,899,264	110,658,292
All other [3]	81,526	323,699
Total	2,900,821,368	2,589,627,450

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

2) 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.

3) Includes fuel retail dealer permits, penalties and interest on fuel tax.

	July 1 through January 31	
	2005-2006	2004-2005
State Tax Collections—Distribution		
State General Fund	2,522,349,955	2,248,958,812
State Highway Fund	110,273,790	103,158,026
State Airport Fund	1,701,258	2,019,051
Boating Special Fund	925,269	917,455
Environmental Fund	1,044,513	1,115,498
Cigarette Stamp Administrative Fund	99,878	68,732
Cigarette Stamp Enforcement Fund	749,099	504,011
Compliance Resolution Fund	0	0
Election Campaign Fund	34,376	19,888
Employment Security Fund	81,647,603	73,337,971
Rental Housing Fund	10,089,807	3,613,272
Natural Area Reserve Fund	8,408,173	3,613,272
Tourism Special Fund	39,413,160	36,074,603
Land Conservation Fund	3,363,269	0
Transient Accommodation Tax Trust Fund	6,407,661	5,864,889
Convention Center Enterprise Fund	16,038,589	17,289,755
School Minor Repairs and Maintenance Fund	6,866	6,552
Public Libraries Fund	5,354	0
Subtotal	2,802,558,640	2,496,561,787
Distributions to Counties*:		
Fuel tax	44,099,857	43,490,748
Transient Accommodation Tax	54,162,870	49,574,915
Counties Total	98,262,727	93,065,663
Total	2,900,821,368	2,589,627,450

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

Including preliminary February 2006 data, general fund tax collections for the first eight months of fiscal year 2006 totaled $2.868 billion compared to $2.577 billion collected during the first eight months of fiscal year 2005. This represents a 11.3% increase.

STATE EMPLOYEES' RETIREMENT SYSTEM

A description of the State's Retirement System 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 Retirement System, including both State and county employees. The System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Employer Contribution Rate

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

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)
2001	8.91[1)]
2002	11.38[2)]
2003	14.55
2004	13.95[3)]
2005	13.95[3)]

[1)] Reflects Act 104 of 2001 which amended Section 88-122, HRS.
[2)] Reflects Act 147 of 2002 which amended Section 88-122, HRS.
[3)] Reflects Act 181 of 2004 which amended Sections 88-105, 88-122, 88-123, 88-124, 88-125 & 88-126, HRS.

As seen above, the calculated total employer contribution rates as a percentage of total payroll have fluctuated during the last five actuarial valuations. The increase in 2002 is due to a 3.7% increase in active membership and the recognition of investment losses. The 2003 increase is due to the recognition of investment losses caused by the poor investment climate over the past several years. The decrease in 2004 is due to the new level percentage of pay approach enacted by Act 181.

Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2004 and 2005 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2004 and 2005
(Includes all counties)

ASSETS	2004	2005
Total current assets	$ 8,797,133,149	$ 8,914,839,263
Present value of future employee contributions	394,088,926	394,989,779
Present value of future employer normal cost contributions	1,228,877,859	1,225,316,907
Unfunded actuarial accrued liability	3,474,197,741	4,071,149,242
Present value of future employer Early Incentive Retirement Program contribution	NA	NA
TOTAL ASSETS	$13,894,297,675	$14,606,295,191
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	$ 6,278,596,378	$ 6,641,643,502
Present value of future benefits to active employees and inactive members	7,615,701,297	7,964,651,689
TOTAL LIABILITIES	$13,894,297,675	$14,616,295,191

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2005, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the Retirement System amounted to approximately $4.071 billion. The Retirement System's funded ratios-assets divided by the actuarial accrued liability decreased during fiscal year 2005 as shown below:

Funded Ratios

June 30, 2004	June 30, 2005
71.7%	68.6%

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PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2005 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, 2005 ("CAFR"). For ease of reference, Part II of Appendix B retains the CAFR's pagination as shown on the immediately following excerpt from the Table of Contents of the CAFR.

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STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PREPARED BY
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

RUSS K. SAITO
COMPTROLLER

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STATE OF HAWAII

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KPMG

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

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, 2005, which collectively comprise the State of Hawaii's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express opinions on these 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, which represent 85% and 67%, respectively, of the assets and revenues of the business-type activities, and the University of Hawaii, the Housing and Community Development Corporation of Hawaii, the Hawaii Health Systems Corporation, and the Hawaii Hurricane Relief Fund, which represent all of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the University of Hawaii, the Housing and Community Development Corporation of Hawaii, the Hawaii Health Systems Corporation, and the Hawaii Hurricane Relief Fund, are 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2006 on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 15 through 29 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Hawaii's basic financial statements. The introductory section, combining and individual fund statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

January 13, 2006

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, 2005. 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, 2005 by $8.8 billion (net assets). Of this amount, $1.9 billion (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors. Net assets of governmental activities increased by $419.1 million and net assets of business-type activities increased by $93.0 million for an increase to the State of $512.0 million from the prior fiscal year.

Fund Highlights

At June 30, 2005, the State's Governmental Funds reported combined ending fund balances of $2.5 billion, an increase of $616.5 million from the prior fiscal year. Of this amount, $767.6 million, or 30.2%, of total fund balances are available for spending at the State's discretion (unreserved fund balance) and the remaining $1.8 billion represent amounts reserved for specific purposes. The Proprietary Funds reported net assets at June 30, 2005 of $2.5 billion, an increase of $93.0 million during the fiscal year.

Long-Term Liabilities

The State's long-term liabilities increased during the current fiscal year to $6.2 billion, an increase of $250.7 million, or 4.2%. During fiscal 2005, the State issued $450.0 million in general obligation bonds for the purpose of financing public improvement projects and $741.3 million in general obligation refunding bonds to advance refund $753.9 million of previously issued outstanding general obligation bonds. The State maintained its Aaa bond rating with Moody's Investors Service and AAA bond rating with Standard and Poor's Corporation and Fitch IBCA, Inc.

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 four legally separate Component Units: the Hawaii Health Systems Corporation, the Hawaii Hurricane Relief Fund, the Housing and Community Development Corporation of Hawaii, 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 and Capital Projects Fund, each of which are considered to be major funds. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

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

The basic Governmental Funds financial statements can be found on pages 35 – 39 of this report.

Proprietary Funds

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

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

The basic Proprietary Funds financial statements can be found on pages 40 – 44 of this report.

Fiduciary Funds

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

The basic Fiduciary Funds financial statements can be found on pages 45 – 47 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 51 – 101 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 non-major 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 $8.8 billion as of June 30, 2005, and increased $512.0 million, or 6.2%, over the course of this fiscal year's operations. The net assets of the governmental activities increased by $419.1 million, or 7.1%, and business-type activities had an increase of $93.0 million, or 3.9%. The following table was derived from the government-wide statement of net assets.

Net Assets

June 30, 2005 and 2004

(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets:						
Current and other assets	$ 2,848,673	$ 2,156,531	$ 1,584,894	$ 1,512,552	$ 4,433,567	$ 3,669,083
Capital assets	9,095,992	8,951,040	2,011,001	2,034,661	11,106,993	10,985,701
Total assets	11,944,665	11,107,571	3,595,895	3,547,213	15,540,560	14,654,784
Liabilities:						
Long-term liabilities	5,194,709	4,861,410	970,574	1,053,171	6,165,283	5,914,581
Other liabilities	409,254	324,520	159,910	121,601	569,164	446,121
Total liabilities	5,603,963	5,185,930	1,130,484	1,174,772	6,734,447	6,360,702
Net assets:						
Invested in capital assets, net of related debt	4,318,111	4,654,693	1,186,703	1,129,619	5,504,814	5,784,312
Restricted	1,163,684	1,062,585	189,093	169,816	1,352,777	1,232,401
Unrestricted	858,907	204,363	1,089,615	1,073,006	1,948,522	1,277,369
Total net assets	$ 6,340,702	$ 5,921,641	$ 2,465,411	$ 2,372,441	$ 8,806,113	$ 8,294,082

Analysis of Net Assets

By far the largest portion of the State's net assets ($5.5 billion or 62.5%) 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 ($1.4 billion or 15.4%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets ($1.9 billion or 22.1%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2005, the State is able to report positive balances in all three categories of net assets for both governmental activities and business-type activities.

Changes in Net Assets

The State's net assets increased by $512.0 million, or 6.2%, during the fiscal year ended June 30, 2005. Approximately 60.9% of the State's total revenues came from taxes, while 26.0% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 11.8% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, and transportation (highways, airports, and harbors).

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.

Changes in Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	$ 355,668	$ 283,459	$ 484,164	$ 482,994	$ 839,832	$ 766,453
Operating grants and contributions	1,667,492	1,687,923	—	—	1,667,492	1,687,923
Capital grants and contributions	143,183	40,001	35,048	24,253	178,231	64,254
General revenues:						
Taxes	4,321,167	3,745,883	—	—	4,321,167	3,745,883
Interest and investment income	64,236	41,903	27,784	24,759	92,020	66,662
Other	(2,847)	(6,180)	(297)	(3,478)	(3,144)	(9,658)
Total revenues	6,548,899	5,792,989	546,699	528,528	7,095,598	6,321,517
Expenses:						
General government	494,174	427,820	—	—	494,174	427,820
Public safety	248,685	239,932	—	—	248,685	239,932
Highways	282,339	413,215	—	—	282,339	413,215
Conservation of natural resources	79,545	69,693	—	—	79,545	69,693
Health	561,155	520,433	—	—	561,155	520,433
Welfare	1,615,721	1,547,732	—	—	1,615,721	1,547,732
Lower education	1,758,596	1,795,482	—	—	1,758,596	1,795,482
Higher education	559,379	480,296	—	—	559,379	480,296
Other education	19,667	23,092	—	—	19,667	23,092
Culture and recreation	72,920	64,052	—	—	72,920	64,052
Urban redevelopment and housing	53,077	59,394	—	—	53,077	59,394
Economic development and assistance	214,842	214,206	—	—	214,842	214,206
Interest expense	169,738	179,357	—	—	169,738	179,357
Airports	—	—	273,949	273,546	273,949	273,546
Harbors	—	—	64,568	54,432	64,568	54,432
Unemployment compensation	—	—	112,329	176,135	112,329	176,135
Nonmajor proprietary fund	—	—	2,883	2,496	2,883	2,496
Total expenses	6,129,838	6,034,704	453,729	506,609	6,583,567	6,541,313
Changes in net assets	419,061	(241,715)	92,970	21,919	512,031	(219,796)
Net assets – beginning, as previously reported	5,921,641	6,163,356	2,372,441	2,337,050	8,294,082	8,500,406
Adjustments	—	—	—	13,472	—	13,472
Net assets – beginning, as restated	5,921,641	6,163,356	2,372,441	2,350,522	8,294,082	8,513,878
Net assets – ending	$ 6,340,702	$ 5,921,641	$ 2,465,411	$ 2,372,441	$ 8,806,113	$ 8,294,082

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

Program Revenues By Source – Governmental Activities
Fiscal Year Ended June 30, 2005

Tax Revenues By Source – Governmental Activities
Fiscal Year Ended June 30, 2005

Analysis of Changes in Net Assets

The State's net assets increased by $512.0 million during the current fiscal year. This increase is explained in the governmental and business-type activities discussion below, and is primarily a result of an increase in tax revenues brought about by the solid recovery of the State's economy.

Governmental Activities

Governmental activities increased the State's net assets by $419.1 million. The key element of this increase is the result of higher tax revenues. Total governmental activities expenses, net of program expenses, remained comparable to the previous year.

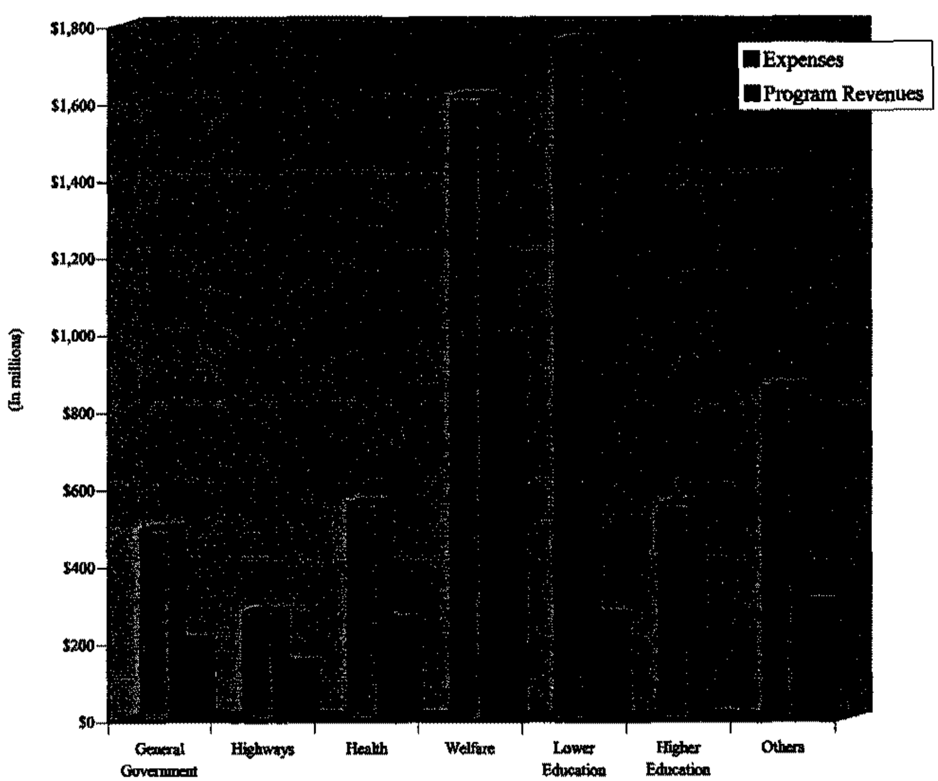
	Governmental Activities (Amounts in thousands) 2005	2004
General revenues:		
Taxes	$ 4,321,167	$ 3,745,883
Interest and investment income	64,236	41,903
Other	(2,847)	(6,180)
Total general revenues	4,382,556	3,781,606
Expenses, net of program revenues:		
General government	290,942	203,939
Public safety	177,590	174,287
Highways	137,205	337,774
Conservation of natural resources	20,381	7,466
Health	305,389	317,158
Welfare	626,280	562,381
Lower education	1,487,166	1,531,996
Higher education	559,379	480,296
Other education	19,451	22,572
Culture and recreation	62,484	54,760
Urban redevelopment and housing	(5,362)	44,413
Economic development and assistance	112,852	106,922
Interest expense	169,738	179,357
Total governmental activities expenses, net of program revenues	3,963,495	4,023,321
Increase (decrease) in governmental activities net assets	$ 419,061	$ (241,715)

The general tax revenues increased by $575.3 million, or 15.4%, from the previous fiscal year. The increase was primarily due to increases in general excise taxes of $245.8 million and in individual and corporate income taxes of $243.8 million. The increase in tax revenues reflects the State's economic expansion in tourism, construction, and real estate as well as the growth in employment and personal income.

The increase of $87.0 million, or 42.7%, for general government is primarily attributed to increases in the health benefit premiums, salary adjustments, and related fringe benefit costs. The $200.6 million, or 59.4%, decrease in highways was a result of higher capitalized project costs in the current fiscal year. The higher education increase of $79.1 million, or 16.5%, was related to repair costs from October 2004 flooding and general repairs and maintenance to various school facilities. The decrease of $49.8 million, or 112.1%, for urban redevelopment and housing was attributable to $45.3 million of capital contributions.

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:

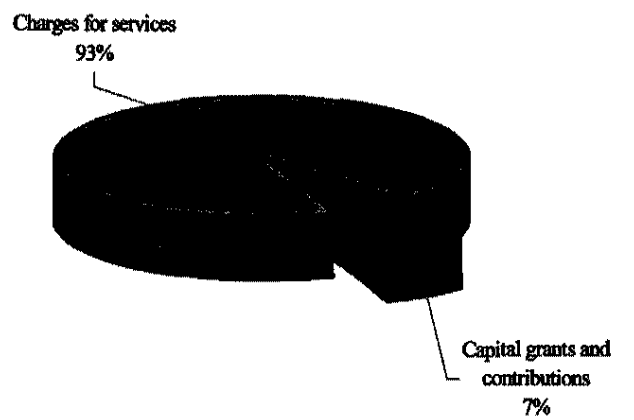
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2005



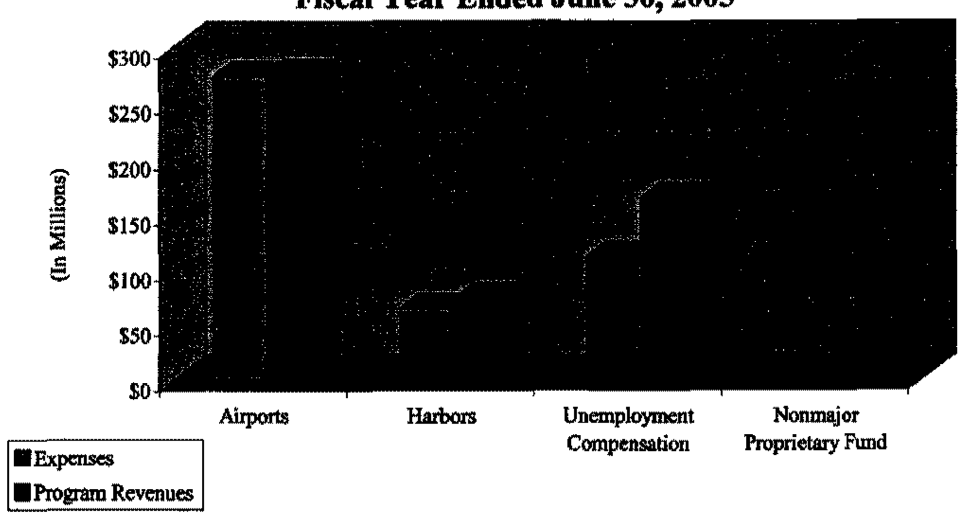
Business-Type Activities

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, 2005



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2005



Business-type activities increased the State's net assets by $93.0 million, or 3.9%, during the current fiscal year. Key elements of this increase are as follows:

- Airport's net assets increased $24.9 million during the fiscal year ended June 30, 2005. The increase was primarily due to $15.2 million of passenger facility charges (PFC) revenues that were generated between October 1, 2004 and June 30, 2005. Effective October 1, 2004, the Federal Aviation Administration (FAA) granted authority to Airports to impose and collect passenger facility charges at the Honolulu International Airport, Kahului Airport, Kona International Airport, and Lihue Airport. The PFC revenues (including interest) are to be utilized for seven FAA-approved projects, which must be implemented by September 30, 2006.

- Harbor's net assets increased $15.0 million compared to an increase of $25.0 million in the prior fiscal year. Operating revenues remained constant; however, operating expenses increased $11.4 million, primarily attributed to more repairs and maintenance work performed on state harbor facilities.

- The Unemployment Compensation Fund's net assets increased $53.0 million due primarily to lower unemployment benefits paid in the fiscal year ended June 30, 2005, and was attributed to Hawaii's low unemployment rate. Hawaii's seasonally adjusted unemployment rate for June 2005 was 2.7% compared to 3.2% a year ago and is at least two percentage points below the national rate.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2005 and 2004 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues									
	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Airports	$ 241,326	$ 214,878	$ 34,663	$ 23,516	$ 275,989	$ 238,394	$ 273,949	$ 273,546	$ 2,040	$ (35,152)
Harbors	74,526	74,768	385	737	74,911	75,505	64,568	54,432	10,343	21,073
Unemployment compensation	165,337	190,580	—	—	165,337	190,580	112,329	176,135	53,008	14,445
Nonmajor proprietary fund	2,975	2,768	—	—	2,975	2,768	2,883	2,496	92	272
Total	$ 484,164	$ 482,994	$ 35,048	$ 24,253	$ 519,212	$ 507,247	$ 453,729	$ 506,609	$ 65,483	$ 638

Financial Analysis of the State's Individual Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the State's Governmental Funds reported combined ending fund balances of $2.5 billion, an increase of $616.5 million over the prior fiscal year. Approximately $767.6 million, or 30.2%, of this total amount constitutes unreserved fund balance, which is available for spending at the State's discretion in the coming fiscal year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use ($1.3 billion), (2) for notes and loan receivable, advances, and investments ($232.0 million), (3) for federal aid highway projects encumbrances ($179.6 million), or (4) for a variety of other restricted purposes ($51.4 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 $745.8 million, an increase of $344.4 million, or 85.8%, over the prior fiscal year, and the reserved fund balance was $219.8 million, an increase of $2.0 million, or 1.0%, over the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20.4% of total General Fund expenditures, an increase of 8.5% over the prior fiscal year, while total fund balance represents 26.4% of that same amount, an increase of 8.0% over the prior fiscal year.

The fund balance of the State's General Fund increased by $346.5 million during the current fiscal year, which was due primarily to an increase in tax revenues. The fund balance of the State's Capital Projects Fund increased by $202.3 million during the current fiscal year. The increase was due primarily to a $450.0 million increase in the issuance of general obligation bonds for financing public improvement projects. The fund balance of the State's other nonmajor Governmental Funds increased by $67.7 million during the current fiscal year. The increase was due to increases of $26.3 million in the deposit beverage container fees and $13.4 million in Medicaid cost reimbursements. Although the bottle recycling bill was signed into law in June 2002, retailers could not begin charging the five cents (5¢) deposit on deposit beverage containers until November 1, 2004.

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 $24.9 million, Harbors had an increase in net assets of $15.0 million, and the Unemployment

Compensation Fund had an increase in net assets of $53.0 million. Other factors concerning the finances of Airports, Harbors, and the Unemployment Compensation Fund have already been addressed in the discussion of the State's business-type activities.

Fiduciary Funds

The State maintains Fiduciary Funds for the assets of the Hawaiian Home Lands Trust. As of the end of the current fiscal year, the net assets of the Hawaiian Home Lands Trust totaled $175.2 million, representing an increase of $11.4 million in total net assets since June 30, 2004.

General Fund Budgetary Highlights

The General Fund revenues were $232.4 million, or 5.6%, more than the final budget. The increase was primarily attributed to higher general excise and net income taxes of $103.2 million and $74.9 million, respectively.

The General Fund expenditure budget increased by $257.4 million from the original to the final budget. Most of the increase is due to the original budget consisting only of the appropriations contained in the general appropriation acts of the executive and judicial branches. Budgets that are not part of this original budget include: $94.6 million in employees' salary adjustments, $41.4 million for employees' health benefits, $23.1 million in various lower education programs, $22.0 million for the flood damages at the University of Hawaii, $18.8 million for the State Legislature, and $12.8 million for substance abuse prevention programs. The difference between the final budget and actual expenditures on a budgetary basis was $99.6 million. The positive variance in general government is primarily attributed to $10.6 million of appropriations made to the State Legislature that can be carried over to the next fiscal year and $9.0 million appropriated for employees' salary adjustments that lapsed. The positive variance in public safety resulted when $28.2 million appropriated for consumer protection and regulatory programs was not required because those programs were instead budgeted from Special Revenue Funds. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $30.7 million of unencumbered appropriations into the next fiscal year. By law, the Department of Education is allowed to carry over up to 5% of its unencumbered appropriations.

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounted to $11.1 billion (net of accumulated depreciation of $6.4 billion). 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, 2005, included the following:

- $33.5 million of additional funding for a new Judiciary Complex in Hilo, Hawaii
- $19.6 million for improvements to the Waimanalo Wastewater Treatment Plant
- $24.0 million for the Ocean Pointe Elementary School, first and second increments
- $17.0 million for improvements to state park facilities

- $30.0 million to repair and upgrade facilities at all University of Hawaii campuses
- $100.0 million for various capital improvement projects and the repairs and maintenance of public school facilities throughout the State.

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

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $5.5 billion. Of this amount, $4.3 billion comprises debt backed by the full faith and credit of the State and $1.2 billion (i.e., revenue bonds) is revenue bonded debt which 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, 2005 and 2004

(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
General obligation bonds	$ 4,256,633	$ 3,954,192	$ 167	$ 196	$ 4,256,800	$ 3,954,388
Revenue bonds	319,305	276,680	918,142	1,006,126	1,237,447	1,282,806
Total	$ 4,575,938	$ 4,230,872	$ 918,309	$ 1,006,322	$ 5,494,247	$ 5,237,194

The State's total long-term debt increased by $257.1 million, or 4.9%, during the current fiscal year. The key factor in this increase was the issuance of $450.0 million in general obligation bonds for financing public improvement projects.

The State's general obligation bonds have been rated by Moody's Investors Service (Aaa), by Standard and Poor's Corporation (AAA), and by Fitch IBCA, Inc. (AAA). The payments of the principal and interest on the general obligation bonds are guaranteed under an insurance policy. Highways' revenue bonds have been rated by Moody's Investors Service (insured-Aaa, uninsured-Aa3), by Standard and Poor's Corporation (insured-AAA, uninsured-AA), and by Fitch IBCA, Inc. (insured-AAA, uninsured-AA-).

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, 2005 was $231.5 million.

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

Economic Factors and Next Year's Budget

Unemployment is at record low levels with the statewide seasonally adjusted unemployment rate being 2.7% for the month of October. One year ago, Hawaii's seasonally adjusted unemployment rate stood at 3.1%, while the seasonally adjusted national unemployment rate was 5.5%.

Cumulative tax collections for the first five months of fiscal 2006 exceeded $2.0 billion or $244.4 million more than the corresponding period last year. General excise and use tax collections, which is the largest source of revenue and a good measure of economic growth, increased 13.0% in the same period.

The Council on Revenues in September 2005 estimated that the General Fund growth rate would be 6.0% in fiscal 2006 and 6.6% in fiscal 2007. Actual General Fund tax collections rose by 13.7% in the first five months of fiscal 2006 over the corresponding 2005 period. Higher general excise and use tax collections and the substantial rise in corporate income tax collections were the primary factors underlying this strong performance. In November, the Council on Revenues revised its forecast of Hawaii's growth in 2006 total personal income from 7.3% to 8.2%.

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.state.hi.us.

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BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

Statement of Net Assets

June 30, 2005
(Amounts in thousands)

ASSETS	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Cash and short-term investments (note 3)	$ 371,114	$ 1,115,686	$ 1,486,800	$ 300,389
Receivables:				
Taxes	345,400	38,700	384,100	—
Accounts and accrued interest, net	13,500	25,763	39,263	146,112
Notes, loans, and mortgages, net	232,004	—	232,004	100,217
Federal government	37,500	5,232	42,732	9,173
Other, net (note 12)	23,874	473	24,347	27,839
Internal balances (note 8)	1,239	(1,239)	—	—
Due from Component Units (note 8)	20,000	—	20,000	—
Due from Primary Government (note 8)	—	—	—	9,026
Investments (note 3)	1,720,341	—	1,720,341	565,686
Inventories:				
Developments in progress and dwelling units	—	—	—	20,961
Materials and supplies	—	243	243	22,803
Net investment in financing lease	—	—	—	16,841
Restricted assets (notes 3, 6, and 10)	—	387,250	387,250	436,395
Other assets:				
Prepaid expenses	—	24	24	27,183
Bond issue and deferred costs, net	83,700	6,738	90,438	2,706
Promissory note receivable	—	6,024	6,024	—
Other	1	—	1	—
Capital assets (notes 4, 5, 6, and 10):				
Land and land improvements	2,379,192	555,818	2,935,010	63,527
Infrastructure	7,731,002	—	7,731,002	45,308
Construction in progress	793,421	125,552	918,973	280,606
Buildings, improvements, and equipment	3,173,950	2,700,017	5,873,967	2,338,333
Accumulated depreciation	(4,981,573)	(1,370,386)	(6,351,959)	(1,162,569)
Total Capital Assets, Net	9,095,992	2,011,001	11,106,993	1,565,205
Total Assets	$ 11,944,665	$ 3,595,895	$ 15,540,560	$ 3,250,536

See accompanying notes to basic financial statements.

LIABILITIES	Primary Government Governmental Activities	Business-Type Activities	Total	Component Units
Vouchers and contracts payable	$ 110,309	$ 70,393	$ 180,702	$ 100,947
Other accrued liabilities	66,419	80,826	147,245	96,466
Prepaid airport use charge fund (note 10)	—	4,208	4,208	—
Due to Component Units (note 8)	9,026	—	9,026	—
Due to Primary Government (note 8)	—	—	—	20,000
Due to federal government	—	—	—	7
Deferred revenue	—	3,530	3,530	25,037
Estimated future costs of land sold	—	—	—	30,027
Unamortized bond premium	223,500	—	223,500	—
Contracts payable, accrued interest, and other	—	37,725	37,725	—
Matured bonds and interest payable	73,403	5	73,408	—
Other	—	953	953	15,284
Long-term liabilities:				
Due within one year:				
Payable from restricted assets:				
Revenue bonds payable, net (notes 6 and 7)	—	34,690	34,690	—
General obligation bonds payable (notes 5 and 7)	—	21	21	—
General obligation bonds payable (notes 5 and 7)	282,368	9	282,377	4,241
Notes, mortgages, and installment contracts payable	—	—	—	1,326
Accrued vacation and retirement benefits payable (note 7)	57,689	2,791	60,480	18,584
Revenue bonds payable, net (notes 6 and 7)	13,050	—	13,050	46,009
Reserve for losses and loss adjustment costs (notes 7 and 13)	68,600	1,032	69,632	29,462
Claims and judgments payable (notes 7 and 12)	30,000	—	30,000	—
Capital lease obligations (notes 7 and 10)	3,305	—	3,305	8,134
Deferred commitment fees	—	—	—	615
Due in more than one year:				
General obligation bonds payable (notes 5 and 7)	3,974,265	137	3,974,402	6,267
Notes, mortgages, and installment contracts payable	—	—	—	18,733
Accrued vacation and retirement benefits payable (note 7)	116,439	7,191	123,630	55,920
Revenue bonds payable, net (notes 6 and 7)	306,255	883,452	1,189,707	576,101
Reserve for losses and loss adjustment costs (notes 7 and 13)	20,500	3,521	24,021	10,035
Claims and judgments payable (notes 7 and 12)	190,800	—	190,800	—
Capital lease obligations (notes 7 and 10)	58,035	—	58,035	42,021
Deferred commitment fees	—	—	—	2,333
Total Liabilities	5,603,963	1,130,484	6,734,447	1,107,549
NET ASSETS				
Invested in capital assets, net of related debt	4,318,111	1,186,703	5,504,814	1,248,978
Restricted for:				
Capital maintenance projects	246,223	—	246,223	—
Health and welfare	404,855	—	404,855	—
Natural resources	96,983	—	96,983	
Hawaiian programs	90,847	—	90,847	
Budget stabilization	48,498	—	48,498	
Other purposes	276,278	—	276,278	—
Bond requirements and other	—	189,093	189,093	642,427
Unrestricted	858,907	1,089,615	1,948,522	251,582
Total Net Assets	$ 6,340,702	$ 2,465,411	$ 8,806,113	$ 2,142,987

STATE OF HAWAII

Statement of Activities

For the Fiscal Year Ended June 30, 2005
(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	$ 494,174	$ 146,242	$ 56,990	$ —	$ (290,942)	$ —	$ (290,942)	
Public safety	248,685	32,317	38,778	—	(177,590)	—	(177,590)	
Highways	282,339	5,525	41,702	97,907	(137,205)	—	(137,205)	
Conservation of natural resources	79,545	26,086	33,078	—	(20,381)	—	(20,381)	
Health	561,155	81,607	174,159	—	(305,389)	—	(305,389)	
Welfare	1,615,721	1,757	987,684	—	(626,280)	—	(626,280)	
Lower education	1,758,596	32,225	239,205	—	(1,487,166)	—	(1,487,166)	
Higher education	559,379	—	—	—	(559,379)	—	(559,379)	
Other education	19,667	8	208	—	(19,451)	—	(19,451)	
Culture and recreation	72,920	7,430	3,006	—	(62,484)	—	(62,484)	
Urban redevelopment and housing	53,077	2	13,161	45,276	5,362	—	5,362	
Economic development and assistance	214,842	22,469	79,521	—	(112,852)	—	(112,852)	
Interest expense	169,738	—	—	—	(169,738)	—	(169,738)	
Total Governmental Activities	6,129,838	355,668	1,667,492	143,183	(3,963,495)	—	(3,963,495)	
Business-Type Activities:								
Airports	273,949	241,326	—	34,663	—	2,040	2,040	
Harbors	64,568	74,526	—	385	—	10,343	10,343	
Unemployment compensation	112,329	165,337	—	—	—	53,008	53,008	
Nonmajor proprietary fund	2,883	2,975	—	—		92	92	
Total Business-Type Activities	453,729	484,164	—	35,048	—	65,483	65,483	
Total Primary Government	$ 6,583,567	$ 839,832	$ 1,667,492	$ 178,231	(3,963,495)	65,483	(3,898,012)	
Component Units:								
University of Hawaii	$ 1,025,891	$ 213,921	$ 343,298	$ 87,334				$ (381,338)
Housing and Community Development Corporation of Hawaii	173,835	86,289	74,886	22,355				9,695
Hawaii Health Systems Corporation	356,936	320,921	2,695	15,274				(18,046)
Hawaii Hurricane Relief Fund	204	—	—	—				(204)
Total Component Units	$ 1,556,866	$ 621,131	$ 420,879	$ 124,963				(389,893)
General Revenues:								
Taxes:								
General excise tax					2,145,603	—	2,145,603	—
Net income tax – corporations and individuals					1,490,964	—	1,490,964	—
Public service companies tax					108,686	—	108,686	—
Transient accommodations tax					110,723	—	110,723	—
Tobacco and liquor taxes					128,982	—	128,982	—
Liquid fuel tax					82,733	—	82,733	—
Tax on premiums of insurance companies					84,822	—	84,822	—
Vehicle weight and registration tax					54,057	—	54,057	—
Rental motor/tour vehicle surcharge tax					41,886	—	41,886	—
Franchise tax					38,520	—	38,520	—
Others					34,191	—	34,191	—
Interest and investment income					64,236	27,784	92,020	26,503
Special item (note 15)					—	—	—	(3,927)
Extraordinary item (note 15)					—	—	—	(300)
Payments from the State					—	—	—	525,101
Other					(2,847)	(297)	(3,144)	(6,351)
Total General Revenues					4,382,556	27,487	4,410,043	541,426
Change in Net Assets					419,061	92,970	512,031	151,533
Net Assets – Beginning, as previously reported					5,921,641	2,372,441	8,294,082	1,990,149
Adjustments (note 1)					—	—	—	1,305
Net Assets – Beginning, as restated					5,921,641	2,372,441	8,294,082	1,991,454
Net Assets – Ending					$ 6,340,702	$ 2,465,411	$ 8,806,113	$ 2,142,987

See accompanying notes to basic financial statements.

STATE OF HAWAII

Governmental Funds
Balance Sheet

June 30, 2005
(Amounts in thousands)

ASSETS	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and short-term investments (note 3)	$ 153,227	$ 53,075	$ 164,812	$ 371,114
Receivables:				
Taxes	338,300	—	7,100	345,400
Accrued interest	3,600	—	3,900	7,500
Notes and loans, net	6,324	—	225,680	232,004
Federal government	—	—	37,500	37,500
Other	1,579	177	3,418	5,174
Due from other funds (note 8)	131,168	—	184	131,352
Due from Proprietary Funds (note 8)	—	1,239	—	1,239
Due from Component Units (note 8)	20,000	—	—	20,000
Investments (note 3)	478,199	315,000	927,142	1,720,341
Other assets	—	—	1	1
Total Assets	$ 1,132,397	$ 369,491	$ 1,369,737	$ 2,871,625
LIABILITIES AND FUND BALANCES				
Liabilities:				
Vouchers and contracts payable	$ 85,918	$ 3,308	$ 21,083	$ 110,309
Other accrued liabilities	57,899	—	8,520	66,419
Due to other funds (note 8)	184	89,900	41,268	131,352
Due to Component Units (note 8)	9,026	—	—	9,026
Payable from restricted assets – matured bonds and interest payable	—	—	803	803
Deferred revenue	13,800	—	—	13,800
Total Liabilities	166,827	93,208	71,674	331,709
Fund Balances:				
Reserved for:				
Continuing appropriations	213,464	712,459	383,447	1,309,370
Receivables and advances	6,336	—	225,680	232,016
Federal aid highway projects encumbrances	—	179,587	—	179,587
Bond redemption and other	—	—	51,351	51,351
Unreserved for major funds:				
Designated for future expenditures	30,701	—	—	30,701
Undesignated	715,069	(615,763)	—	99,306
Unreserved for nonmajor Special Revenue Funds:				
Designated for future expenditures	—	—	291,684	291,684
Undesignated	—	—	345,901	345,901
Total Fund Balances	965,570	276,283	1,298,063	2,539,916
Total Liabilities and Fund Balances	$ 1,132,397	$ 369,491	$ 1,369,737	$ 2,871,625

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, 2005

(Amounts in thousands)

Total Fund Balance – Governmental Funds			$	2,539,916
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	$	2,379,192		
Infrastructure		7,731,002		
Construction in progress		793,421		
Buildings, improvements, and equipment		3,173,950		
Accumulated depreciation		(4,981,573)		
				9,095,992
Accrued interest and other payables are not recognized in governmental funds.				(296,100)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in governmental funds, such as deferred tax revenue.				122,200
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:				
General obligation bonds payable		(4,256,633)		
Accrued vacation payable		(174,128)		
Revenue bonds payable		(319,305)		
Reserve for losses and loss adjustment costs		(89,100)		
Claims and judgments payable		(220,800)		
Capital lease obligations		(61,340)		
				(5,121,306)
Net Assets of Governmental Activities			$	6,340,702

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, 2005
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
General excise tax	$ 2,139,798	$ —	$ 5,805	$ 2,145,603
Net income tax – corporations and individual	1,484,664	—	—	1,484,664
Public service companies tax	108,686	—	—	108,686
Transient accommodations tax	12,689	—	98,034	110,723
Tobacco and liquor taxes	127,805	—	1,177	128,982
Liquid fuel tax	—	—	82,733	82,733
Tax on premiums of insurance companies	83,077	—	1,745	84,822
Vehicle weight and registration tax	—	—	54,057	54,057
Rental motor/tour vehicle surcharge tax	—	—	43,950	43,950
Franchise tax	36,520	—	2,000	38,520
Others	25,297	—	8,894	34,191
Total Taxes	4,018,536	—	298,395	4,316,931
Interest and investment income	25,170	—	33,066	58,236
Charges for current services	69,215	—	229,455	298,670
Intergovernmental	10,729	—	1,564,170	1,574,899
Rentals	5,852	—	22,880	28,732
Fines, forfeitures, and penalties	21,316	—	6,166	27,482
Licenses and fees	1,209	—	26,088	27,297
Revenues from private sources	3,274	—	38,562	41,836
Other	42,822	—	58,565	101,387
Total Revenues	4,198,123	—	2,277,347	6,475,470
Expenditures:				
Current:				
General government	384,203	63,805	60,146	508,154
Public safety	204,390	6,033	80,946	291,369
Highways	—	156,214	145,570	301,784
Conservation of natural resources	26,841	6,188	41,159	74,188
Health	389,984	4,049	170,774	564,807
Welfare	623,599	2,497	988,463	1,614,559
Lower education	1,434,862	83,843	279,503	1,798,208
Higher education	510,194	49,185	—	559,379
Other education	4,197	4,109	11,361	19,667
Culture and recreation	38,485	8,830	26,459	73,774
Urban redevelopment and housing	7,246	30,000	15,452	52,698
Economic development and assistance	29,791	13,330	171,256	214,377
Other	—	—	4,784	4,784
Debt service	—	—	321,948	321,948
Total Expenditures	3,653,792	428,083	2,317,821	6,399,696
Excess (Deficiency) of Revenues over Expenditures	544,331	(428,083)	(40,474)	75,774
Other Financing Sources (Uses):				
Issuance of general obligation and refunding general obligation bonds – par (notes 5 and 7)	—	450,000	741,310	1,191,310
Issuance of general obligation and refunding general obligation bonds - premium (notes 5 and 7)	30,375	—	70,845	101,220
Issuance of revenue and refunding revenue bonds – par (notes 6 and 7)	—	60,000	123,915	183,915
Issuance of revenue and refunding revenue bonds – premium (notes 6 and 7)	—	—	15,000	15,000
Payments to refunded bond escrow agent (notes 5, 6, and 7)	—	—	(947,869)	(947,869)
Transfers in (note 9)	68,225	124,525	302,348	495,098
Transfers out (note 9)	(296,458)	(5,890)	(192,750)	(495,098)
Other	—	1,755	(4,602)	(2,847)
Total Other Financing Sources (Uses)	(197,858)	630,390	108,197	540,729
Net Change in Fund Balances	346,473	202,307	67,723	616,503
Fund Balances – Beginning	619,097	73,976	1,230,340	1,923,413
Fund Balances – Ending	$ 965,570	$ 276,283	$ 1,298,063	$ 2,539,916

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, 2005
(Amounts in thousands)

Total Net Change in Fund Balances – Governmental Funds		$ 616,503
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	$ 443,086	
Depreciation expense (note 4)	(296,289)	
Excess of capital outlay over depreciation expense		146,797
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 and revenue bonds issued.		(1,491,445)
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	1,030,159	
Capital lease payments	3,145	
Claims and judgment payments	30,000	
Total long-term debt repayment		1,063,304
Revenue timing differences result in greater revenue in the government-wide financial statements.		31,000
Bond issue and deferred costs reflected as other financing uses in governmental funds and reported in the statement of net assets.		68,075
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 claims and judgments payable	(14,200)	
Change in accrued vacation payable	(15,373)	
Change in reserve for losses and loss adjustment costs	14,400	
		(15,173)
Change in Net Assets of Governmental Activities		$ 419,061

See accompanying notes to basic financial statements.

STATE OF HAWAII

General Fund
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)

For the Fiscal Year Ended June 30, 2005
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance – Over (Under)
Revenues:				
Taxes:				
General excise tax	$ 1,949,538	$ 2,027,592	$ 2,130,798	$ 103,206
Net income tax:				
Corporations	37,960	62,835	85,604	22,769
Individuals	1,248,142	1,329,134	1,381,260	52,126
Inheritance and estate tax	5,468	5,954	12,712	6,758
Liquor permits and tax	43,822	42,892	43,737	845
Public service companies tax	138,713	107,449	108,686	1,237
Tobacco tax	94,469	83,625	84,068	443
Tax on premiums of insurance companies	73,000	78,000	83,077	5,077
Franchise tax (banks and other financial institutions	9,784	33,738	36,520	2,782
Transient accommodations tax	10,374	12,635	12,389	(246)
Other taxes, primarily conveyances tax	5,670	9,670	12,585	2,915
Total Taxes	3,616,940	3,793,524	3,991,436	197,912
Non-taxes:				
Interest and investment income	25,007	19,371	21,823	2,452
Charges for current services	141,749	147,328	150,998	3,670
Intergovernmental	3,157	5,412	6,439	1,027
Rentals	7,219	5,832	5,852	20
Fines, forfeitures, and penalties	19,200	20,058	21,316	1,258
Licenses and fees	962	1,010	1,209	199
Revenues from private source	1,499	2,552	3,274	722
Debt service requirements	45,728	40,607	41,617	1,010
Other	117,724	122,909	147,040	24,131
Total Non-taxes	362,245	365,079	399,568	34,489
Total Revenues	3,979,185	4,158,603	4,391,004	232,401
Expenditures:				
General government	571,814	662,159	633,172	28,987
Public safety	207,448	217,424	187,822	29,602
Highways	—	611	—	611
Conservation of natural resources	26,655	27,950	26,767	1,183
Health	350,753	381,539	379,424	2,115
Hospitals	27,848	38,689	38,410	279
Welfare	604,541	607,593	605,567	2,026
Lower education	1,487,490	1,549,800	1,518,890	30,910
Higher education	475,172	510,382	510,352	30
Other education	3,819	3,861	3,847	14
Culture and recreation	36,950	38,300	37,160	1,140
Urban redevelopment and housing	1,277	824	726	98
Economic development and assistance	27,444	28,909	27,581	1,328
Housing	7,495	7,516	6,345	1,171
Social security and pension contribution	170,541	176,945	176,945	—
Other	—	4,103	4,003	100
Total Expenditures	3,999,247	4,256,605	4,157,011	99,594
Excess (Deficiency) of Revenues over Expenditures	(20,062)	(98,002)	233,993	132,807
Other Financing Sources:				
Transfers in	12,455	72,143	95,354	23,211
Excess (Deficiency) of Revenues and Other Sources over Expenditures	$ (7,607)	$ (25,859)	$ 329,347	$ 156,018

See accompanying notes to basic financial statements.

STATE OF HAWAII

Proprietary Funds
Statement of Net Assets

June 30, 2005
(Amounts in thousands)

ASSETS	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Fund	Total Proprietary Funds
Current Assets:					
Cash and short-term investments (note 3)	$ 537,795	$ 89,202	$ 411,643	$ 77,046	$ 1,115,686
Receivables:					
Taxes	—	—	38,700	—	38,700
Accounts and accrued interest (net of allowance for doubtful accounts of $20,685) (note 10)	17,361	8,402	—	—	25,763
Promissory note receivable	6,024	—	—	—	6,024
Federal government	4,508	724	—	—	5,232
Other	296	177	—	—	473
Inventory of materials and supplies	215	28	—	—	243
Prepaid expenses and other assets	—	24	—	—	24
Restricted assets:					
Cash and short-term investments (notes 3 and 6)	178,048	92,108	—	—	270,156
Investments - repurchase agreements and certificates of deposit (notes 3 and 6)	75,252	—	—	—	75,252
Passenger facility charges receivable	2,717	—	—	—	2,717
Total Current Assets	822,216	190,665	450,343	77,046	1,540,270
Noncurrent Assets:					
Capital assets (notes 4 and 6)					
Land and land improvements	315,260	240,558	—	—	555,818
Construction in progress	90,821	34,731	—	—	125,552
Buildings and improvements	2,041,980	472,524	—	—	2,514,504
Equipment	175,516	9,997	—	—	185,513
Less accumulated depreciation	(1,197,306)	(173,080)	—	—	(1,370,386)
Net Capital Assets	1,426,271	584,730	—	—	2,011,001
Bond issue costs, net	4,247	2,491	—	—	6,738
Restricted assets - net direct financing leases (note 10)	39,125	—	—	—	39,125
Total Noncurrent Assets	1,469,643	587,221	—	—	2,056,864
Total Assets	$ 2,291,859	$ 777,886	$ 450,343	$ 77,046	$ 3,597,134

See accompanying notes to basic financial statements.

LIABILITIES	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Fund	Total Proprietary Funds
Current Liabilities:					
Vouchers and contracts payable	$ 17,437	$ 2,609	$ 49,900	$ 447	$ 70,393
Other accrued liabilitie	4,591	—	—	76,235	80,826
Due to Capital Projects Fund (note 8)	—	1,239	—	—	1,239
Prepaid airport use charge fund	4,208	—	—	—	4,208
Deferred revenue	3,530	—	—	—	3,530
General obligation bonds payable, current portion (notes 5 and 7	9	—	—	—	9
Accrued vacation, current portion (note 7)	2,196	595	—	—	2,791
Reserve for losses and loss adjustment costs (note 7	883	149	—	—	1,032
Total Current Liabilities	32,854	4,592	49,900	76,682	164,028
Liabilities Payable from Restricted Assets:					
Contracts payable, accrued interest, and other	25,044	12,681	—	—	37,725
Matured bonds and interest payable	—	5	—	—	5
Revenue bonds payable (notes 6 and 7)	26,215	8,475	—	—	34,690
General obligation bonds payable (notes 5 and 7	—	21	—	—	21
Total Liabilities Payable from Restricted Assets	51,259	21,182	—	—	72,441
Noncurrent Liabilities:					
General obligation bonds payable (notes 5 and 7	47	90	—	—	137
Accrued vacation (note 7)	5,406	1,785	—	—	7,191
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding) (notes 6 and 7)	707,605	175,847	—	—	883,452
Reserve for losses and loss adjustment costs (note 7	3,217	304	—	—	3,521
Other	953	—	—	—	953
Total Long-Term Liabilities	717,228	178,026	—	—	895,254
Total Liabilities	801,341	203,800	49,900	76,682	1,131,723
NET ASSETS					
Invested in capital assets, net of related debt	783,916	402,787	—	—	1,186,703
Restricted for bond requirements and other	178,195	10,898	—	—	189,093
Unrestricted	528,407	160,401	400,443	364	1,089,615
Total Net Assets	$ 1,490,518	$ 574,086	$ 400,443	$ 364	$ 2,465,411

STATE OF HAWAII

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Fund	Total Proprietary Funds
Operating Revenues (note 10):					
Concession fees	$ 116,879	$ —	$ —	$ —	$ 116,879
Unemployment compensation tax	—	—	165,337	—	165,337
Aviation fuel tax	3,434	—	—	—	3,434
Airport use charges	35,463	—	—	—	35,463
Rentals	66,584	20,256	—	—	86,840
Services and others	656	52,923	—	—	53,579
Other	3,141	1,347	—	2,975	7,463
Total Operating Revenues	226,157	74,526	165,337	2,975	468,995
Operating Expenses:					
Personnel services	88,730	11,541	—	1,255	101,526
Depreciation (note 4)	77,491	15,998	—	—	93,489
Repairs and maintenance	21,869	9,979	—	—	31,848
Airports operations	30,546	—	—	—	30,546
Harbors operations	—	10,824	—	—	10,824
Fireboat operations	—	1,597	—	—	1,597
General administration	10,499	4,810	—	—	15,309
Unemployment compensation	—	—	112,329	—	112,329
Other	473	—	—	1,628	2,101
Total Operating Expenses	229,608	54,749	112,329	2,883	399,569
Operating Income (Loss)	(3,451)	19,777	53,008	92	69,426
Nonoperating Revenues (Expenses):					
Interest income	22,992	4,792	—	—	27,784
Interest expense	(43,054)	(9,819)	—	—	(52,873)
Federal grants	1,523	—	—	—	1,523
Loss on disposal of capital asset	(126)	(171)	—	—	(297)
Passenger facility charge	15,169	—	—	—	15,169
Other	(1,287)	—	—	—	(1,287)
Total Nonoperating Expenses	(4,783)	(5,198)	—	—	(9,981)
Income (Loss) before Capital Contributions	(8,234)	14,579	53,008	92	59,445
Capital Contributions	33,140	385	—	—	33,525
Change in Net Assets	24,906	14,964	53,008	92	92,970
Net Assets – Beginning	1,465,612	559,122	347,435	272	2,372,441
Net Assets – Ending	$ 1,490,518	$ 574,086	$ 400,443	$ 364	$ 2,465,411

See accompanying notes to basic financial statements.

STATE OF HAWAII

Proprietary Funds
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2005
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Fund	Total Proprietary Funds
Cash Flows from Operating Activities:					
Cash received from customers	$ 218,124	$ 78,286	$ —	$ —	$ 296,410
Cash received from taxes	—	—	160,637	—	160,637
Cash received from employees	—	—	—	35,514	35,514
Cash paid to suppliers	(93,679)	(23,480)	—	(4,192)	(121,351)
Cash paid to employees	(51,748)	(11,032)	—	—	(62,780)
Cash paid for unemployment compensation	—	—	(107,029)	—	(107,029)
Net Cash Provided by Operating Activities	72,697	43,774	53,608	31,322	201,401
Cash Flows Provided by Noncapital Financing Activity:					
Proceeds from federal operating grants	1,833	—	—	—	1,833
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(53,621)	(13,454)	—	—	(67,075)
Payments to refund revenue bonds	(69,300)	—	—	—	(69,300)
Repayment of general obligation bond principal	(9)	—	—	—	(9)
Repayment of revenue bond principal	(10,765)	(8,575)	—	—	(19,340)
Interest paid on bonds	(41,821)	(8,306)	—	—	(50,127)
Proceeds from passenger facility charges program	12,452	—	—	—	12,452
Proceeds from federal, state, and capital grants	30,421	701	—	—	31,122
Net Cash Used in Capital and Related Financing Activities	(132,643)	(29,634)	—	—	(162,277)
Cash Flows from Investing Activities:					
Purchase of investments	(75,252)	—	—	—	(75,252)
Proceeds from sales and maturities of investments	85,284	—	—	—	85,284
Interest from investments	18,953	4,420	—	—	23,373
Net Cash Provided by Investing Activities	28,985	4,420	—	—	33,405
Net Increase (Decrease) in Cash and Cash Equivalents	(29,128)	18,560	53,608	31,322	74,362
Cash and Cash Equivalents, Including Restricted Amounts – Beginning	744,971	162,750	358,035	45,724	1,311,480
Cash and Cash Equivalents, Including Restricted Amounts – Ending	$ 715,843	$ 181,310	$ 411,643	$ 77,046	$ 1,385,842

(Continued)

Proprietary Funds
Statement of Cash Flows (Cont'd)

For the Fiscal Year Ended June 30, 2005
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Fund	Total Proprietary Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (loss)	$ (3,451)	$ 19,777	$ 53,008	$ 92	$ 69,426
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Provision for uncollectible accounts	2,355	6,999	—	—	9,354
Depreciation	77,491	15,998	—	—	93,489
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	1,088	—	—	—	1,088
Decrease (increase) in assets					
Receivables	(5,834)	(3,348)	(4,700)	—	(13,882)
Inventory of materials and supplies	(24)	17	—	—	(7)
Increase (decrease) in liabilities					
Vouchers and contracts payable	2,513	3,661	5,300	(1,309)	10,165
Other accrued liabilities	1,737	670	—	32,539	34,946
Prepaid airport use charge fund	(1,348)	—	—	—	(1,348)
Deferred revenue	(1,830)	—	—	—	(1,830)
Net Cash Provided by Operating Activities	$ 72,697	$ 43,774	$ 53,608	$ 31,322	$ 201,401
Noncash Investing, Capital, and Financing Activities:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	$ 2,559	$ 616	$ —	$ —	$ 3,175
Project costs written off	126	—	—	—	126
Contracts payable accrual for the acquisition of capital assets	6,600	—	—	—	6,600
Capitalized interest	2,591	—	—	—	2,591
Principal payments relating to special facility revenue bonds	1,135	—	—	—	1,135
Interest payments relating to special facility revenue bonds	2,857	—	—	—	2,857

See accompanying notes to basic financial statements.

STATE OF HAWAII

Fiduciary Funds
Statement of Fiduciary Net Assets

June 30, 2005

(Amounts in thousands)

ASSETS	Private Purpose Trust Fund	Agency Funds
Cash and short-term investments (note 3)	$ 169,941	$ 147,963
Receivables:		
Taxes	4	8,400
Accrued interest	800	400
Total Receivables	804	8,800
Investments (note 3):		
Repurchase agreements	4,607	3,864
U.S. government securities	—	11
Total Investments	4,607	3,875
Total Assets	175,352	$ 160,638
LIABILITIES AND NET ASSETS		
Vouchers payable	$ 103	$ 1,407
Due to individuals, businesses, and counties	—	159,231
Total Liabilities	103	$ 160,638
Net assets – held in trust	$ 175,249	

See accompanying notes to basic financial statements.

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STATE OF HAWAII

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2005
(Amounts in thousands)

	Private Purpose Trust Fund
Additions:	
Charges for current services	$ 634
Rentals	5,483
Interest and investment income	8,961
Hawaiian Home Lands Trust settlement (note 12)	30,000
Other	1
Total Additions	45,079
Deductions:	
Personal services	2,918
Other	30,757
Total Deductions	33,675
Change in Net Assets	11,404
Net Assets – Beginning	163,845
Net Assets – Ending	$ 175,249

See accompanying notes to basic financial statements.

STATE OF HAWAII

Component Units
Statement of Net Assets

June 30, 2005

(Amounts in thousands)

ASSETS		University of Hawaii		Housing and Community Development Corporation of Hawaii		Hawaii Health Systems Corporation		Hawaii Hurricane Relief Fund		Total Component Units
Cash and short-term investments	$	115,930	$	159,944	$	20,554	$	3,961	$	300,389
Receivables:										
Accounts and accrued interest (net of allowance for doubtful accounts of $94,787)		89,281		5,033		50,343		1,455		146,112
Notes, loans, and mortgages (net of allowance for doubtful accounts of $5,251)		27,868		72,349		—		—		100,217
Federal government		—		9,173		—		—		9,173
Other		—		27,461		—		378		27,839
Due from Primary Government (note 8)		9,026		—		—		—		9,026
Investments		372,466		8,083		—		185,137		565,686
Inventories:										
Developments in progress and dwelling units		—		20,961		—		—		20,961
Materials and supplies		13,024		871		8,908		—		22,803
Net investment in financing lease		—		16,841		—		—		16,841
Prepaid expenses and other assets		19,070		1,865		6,248		—		27,183
		646,665		322,581		86,053		190,931		1,246,230
Restricted assets:										
Cash and short-term investments		13,442		55,746		—		—		69,188
Investments:										
U.S. government securities		—		7,332		—		—		7,332
Guaranteed investment contracts		—		100		—		—		100
Mortgage-backed securities		—		205,382		—		—		205,382
Repurchase agreements		—		144,383		—		—		144,383
Private debt obligations		—		848		—		—		848
Deposits, funded reserves, and other		—		7,456		1,706		—		9,162
Total Restricted Assets		13,442		421,247		1,706		—		436,395
Capital assets:										
Land and land improvements		11,827		46,519		5,181		—		63,527
Infrastructure		45,308		—		—		—		45,308
Construction in progress		183,626		66,595		30,385		—		280,606
Buildings, improvements, and equipment		1,383,980		614,730		339,623		—		2,338,333
Less accumulated depreciation		(655,115)		(328,058)		(179,396)		—		(1,162,569)
Total Capital Assets, Net		969,626		399,786		195,793		—		1,565,205
Other assets:										
Bond issue costs		—		2,706		—		—		2,706
Total Assets	$	1,629,733	$	1,146,320	$	283,552	$	190,931	$	3,250,536

See accompanying notes to basic financial statements.

LIABILITIES		University of Hawaii		Housing and Community Development Corporation of Hawaii		Hawaii Health Systems Corporation		Hawaii Hurricane Relief Fund		Total Component Units
Current Liabilities:										
Vouchers and contracts payable	$	52,328	$	15,586	$	33,002	$	31	$	100,947
Other accrued liabilities		53,246		23,097		20,123		—		96,466
Due to Primary Government (note 8)		6,000		—		14,000		—		20,000
Due to federal government				7		—		—		7
Deferred revenue		23,511		1,526		—		—		25,037
Estimated future costs of land sold		—		30,027		—		—		30,027
General obligation bonds payable (note 5)		4,241		—		—		—		4,241
Notes, mortgages, and installment contracts payable		593		39		694		—		1,326
Accrued vacation and retirement benefits payable		17,755		—		829		—		18,584
Revenue bonds payable		3,610		42,399		—		—		46,009
Reserve for losses and loss adjustment costs		4,179		—		25,283		—		29,462
Capital lease obligations		395		—		7,739		—		8,134
Deferred commitment fees		—		615		—		—		615
Other liabilities		11,616		2,392		1,276		—		15,284
Total Current Liabilities		177,474		115,688		102,946		31		396,139
Noncurrent Liabilities:										
General obligation bonds payable (note 5)		6,267		—		—		—		6,267
Notes, mortgages, and installment contracts payable		514		6,683		11,536		—		18,733
Accrued vacation and retirement benefits payable		31,440		—		24,480		—		55,920
Revenue bonds payable		160,280		415,821		—		—		576,101
Reserve for losses and loss adjustment costs		10,035		—		—		—		10,035
Capital lease obligations		14,670		—		27,351		—		42,021
Deferred commitment fees		—		2,333		—		—		2,333
Total Long-Term Liabilities		223,206		424,837		63,367		—		711,410
Total Liabilities		400,680		540,525		166,313		31		1,107,549
NET ASSETS										
Invested in capital assets, net of related debt		811,583		288,923		148,472		—		1,248,978
Restricted		219,877		421,248		1,302		—		642,427
Unrestricted (deficit)		197,593		(104,376)		(32,535)		190,900		251,582
Total Net Assets	$	1,229,053	$	605,795	$	117,239	$	190,900	$	2,142,987

Component Units
Statement of Revenues, Expenditures, and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005
(Amounts in thousands)

	University of Hawaii	Housing and Community Development Corporation of Hawaii	Hawaii Health Systems Corporation	Hawaii Hurricane Relief Fund	Total Component Units
Expenses	$ 1,025,891	$ 173,835	$ 356,936	$ 204	$ 1,556,866
Program Revenues:					
Charges for current services	213,921	86,289	320,921	—	621,131
Operating grants and contributions	343,298	74,886	2,695	—	420,879
Capital grants and contributions	87,334	22,355	15,274	—	124,963
Total Program Revenues	644,553	183,530	338,890	—	1,166,973
Net Program Revenues (Expenses)	(381,338)	9,695	(18,046)	(204)	(389,893)
General Revenues (Expenses):					
Interest and investment income	22,058	—	253	4,192	26,503
Special item (note 15)	—	—	(3,527)	—	(3,527)
Extraordinary item (note 15)	(300)	—	—	—	(300)
Payments from (to) the State	491,850	(10)	38,408	(5,147)	525,101
Other	(8,268)	—	1,917	—	(6,351)
Net General Revenues (Expenses)	505,340	(10)	37,051	(955)	541,426
Change in Net Assets	124,002	9,685	19,005	(1,159)	151,533
Net Assets – Beginning, as previously reported	1,105,051	596,110	98,234	190,754	1,990,149
Adjustments (note 1)	—	—	—	1,305	1,305
Net Assets – Beginning, as restated	1,105,051	596,110	98,234	192,059	1,991,454
Net Assets – Ending	$ 1,229,053	$ 605,795	$ 117,239	$ 190,900	2,142,987

See accompanying notes to basic financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The State has defined its reporting entity in accordance with GASB Statement No. 14, *The Financial 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. The discretely presented Component Units are as follows:

University of Hawaii

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

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

Housing and Community Development Corporation of Hawaii

The Housing and Community Development Corporation of Hawaii (HCDCH) was established as a corporate body to be placed within the Department of Human Services for administrative purposes. The HCDCH's housing programs include performing housing finance, housing development, and residential leasehold functions; and clearing, replanning, and reconstructing areas in response to the State Legislature's determination that there exists a critical shortage of safe and sanitary, affordable housing units for lower income residents. The State has the ability to influence the budget and programs of the HCDCH.

HRS Chapter 201G states that the HCDCH shall be a public body and a body corporate and politic. The statute provides that the HCDCH shall be headed by a Board of Directors comprised of eight members. The eight members consist of the following:

- Five public members appointed by the Governor (one appointed at large, and the remaining four appointed from each of the counties of Honolulu, Hawaii, Kauai, and Maui);
- The Director of Business, Economic Development and Tourism;
- The Director of Human Services; and
- The Representative of the Governor's Office.

Hawaii Health Systems Corporation

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

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

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

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

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities, and fund balances between the Department of Health and the HHSC pursuant to Act 262 were ongoing as of June 30, 2005. Accordingly, the assets, liabilities, and net assets of the HHSC reflected in the accompanying basic financial statements at June 30, 2005 may be significantly different from those included in the final settlement.

In fiscal 2005, the HHSC created a new division, the Yukio Okutsu Veterans Care Home, to develop and operate a long-term care facility for veterans in Hilo, Hawaii (see note 15).

The HHSC is comprised of the following state hospitals:

Hale Ho'ola Hamakua	Lanai Community Hospital
Hilo Medical Center	Leahi Hospital
Ka'u Hospital	Samuel Mahelona Memorial Hospital
Kauai Veterans Memorial Hospital	Maluhia
Kohala Hospital	Maui Memorial Medical Center
Kona Community Hospital	Yukio Okutsu Veterans Care Home
Kula Hospital	

Hawaii Hurricane Relief Fund

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

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

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

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

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

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

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

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the state and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status criteria of GASB Statement No. 14, are not accountable to the State.

B. 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 constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. 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.

C. 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 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.

In accordance with 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, unless FASB conflicts with GASB.

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.

D. 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.

(Continued)

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

Governmental Fund Types

The State reports the following major Governmental Funds:

General Fund

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

Capital Projects Fund

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

The nonmajor Governmental Funds are comprised of the following:

Special Revenue Funds

These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

Debt Service Fund

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

Proprietary Fund Type – Enterprise Funds

The major Enterprise Funds are comprised of the following:

Department of Transportation – Airports Division (Airports)

Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

Department of Transportation – Harbors Division (Harbors)

Harbors maintains and operates the State's commercial harbors system.

Unemployment Compensation Fund

This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Fund is comprised of the Health Fund. This fund accounts for the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), which includes medical, dental, and life insurance coverage.

Fiduciary Fund Types

Private-Purpose Trust Fund

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

Agency Funds

These funds account for assets held by the State in an agency capacity.

Component Units

Component Units are comprised of (1) the UH, which is comprised of the State's public institutions of higher education; (2) the HCDCH which provides dwelling units for low- and moderate-income residents of the State; (3) the HHSC, which was established to provide quality health care for all of the people of the State; and (4) the HHRF which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

E. Cash and Short-Term Investments

Cash and short-term investments include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and all time certificates of deposit.

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

F. 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.

(Continued)

G. Investments

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

H. 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.

I. 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.

J. 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

(Continued)

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 to 50 years
Buildings and improvements	15 to 30 years
Equipment	5 to 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 not 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.

K. 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.

L. Long-Term Obligations

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

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

(Continued)

M. Net Assets and Fund Equity

In the government-wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as creditors, grantors, and contributors), 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.
- Private-Purpose Trust Fund balances which are restricted to the purpose of the accounts.

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

N. Nonexchange Transactions

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources, the Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

O. 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.

P. 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 $250,000 per occurrence of property losses, the first $3 million with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $100 million, except for flood and earthquake which is $25 million and terrorism which is $50 million. The annual aggregate for general liability losses and losses due to crime per occurrence is $10 million. The State also has an insurance policy to cover medical malpractice risk in the amount of $20 million per occurrence and in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, estimates (based on projections of historical developments) of claims incurred but not reported, and 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.

Q. 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.

R. Estimates and Restatements

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.

The financial statements of the HHRF as of and for the fiscal year ended June 30, 2004 were adjusted from amounts previously reported to correct interest income transferred to the State's General Fund. A summary of adjustments to net assets at July 1, 2004 and the change in net assets for the fiscal year ended June 30, 2004 follows (amounts expressed in thousands):

		Net assets at July 1, 2004
Balance as previously reported	$	190,754
Correction of interest income transferred to the State's General Fund for the fiscal year ended June 30, 2004		1,305
Balance as restated	$	192,059

(2) BUDGETING AND BUDGETARY CONTROL

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues, expenditures, and changes in fund balance – budget and actual (budgetary basis) – general fund 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 2003 (Act 200, SLH of 2003), and as amended by the Supplemental Appropriations Act of 2004, 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 2003-2005 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 statement of revenues and expenditures – budget and actual (budgetary basis) – general fund 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, 2005, 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 statement of revenues, expenditures, and changes in fund balance – budget and actual (budgetary basis) – general fund. The State's annual budget is prepared on the modified-accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase order and contract obligations and equipment acquired through long-term financing (basis difference) and (2) the accounting for transfers of debt service payments through the General Fund (perspective difference), which represent departures from GAAP.

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2005 follows (amounts expressed in thousands):

	General Fund
Excess of revenues and other sources over expenditures and other uses – actual (budgetary basis)	$ 329,347
Reserve for encumbrances at fiscal year-end*	172,022
Expenditures for liquidation of prior fiscal year encumbrances	(179,030)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	6,871
Tax refunds payable	(16,200)
Accrued liabilities	(2,345)
Accrued revenues	35,808
Net change in fund balance – GAAP basis	$ 346,473

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

(3) CASH AND INVESTMENTS

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

A. 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 short-term investments consist of cash, time certificates of deposit, and money market accounts. Cash and short-term investments 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, 2005 was $1,486,800,000 and $270,156,000, respectively, for the Primary Government and $317,904,000 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 $1,674,107,981 at June 30, 2005. Of that amount, $1,244,375,669 represent bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. The remaining bank balances of $429,732,312 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.

(Continued)

B. Investments

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

The following tables present the State's investments and maturities at June 30, 2005 (amounts expressed in thousands).

	Fair Value	Maturity (in years) Less than 1	1–5	30
Investments – Primary:				
Government:				
Certificates of deposit	$ 68,299	$ 53,299	$ 15,000	$ —
U.S. government securities	1,374,700	—	1,374,700	—
Repurchase agreements	352,594	337,062	15,532	—
	1,795,593	390,361	1,405,232	—
Less:				
Restricted assets investments	(75,252)	(75,252)	—	—
	$ 1,720,341	$ 315,109	$ 1,405,232	$ —
Investments – Fiduciary Funds:				
U.S. government securities	$ 11	$ —	$ —	$ 11
Repurchase agreements	8,471	8,346	125	—
	$ 8,482	$ 8,346	$ 125	$ 11

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. As of June 30, 2005, the State held short-term investments in student loan resource securities maintaining a Triple-A rating.

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

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

(4) CAPITAL ASSETS

For the fiscal year ended June 30, 2005, 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, 2004	**Additions**	**Deletions**	**Balance, June 30, 2005**
Capital assets not being depreciated:				
Land and land improvements	$ 2,338,636	$ 40,907	$ (351)	$ 2,379,192
Construction in progress	796,235	339,683	(342,497)	793,421
Total capital assets not being depreciated	3,134,871	380,590	(342,848)	3,172,613
Capital assets being depreciated:				
Infrastructure	7,603,818	127,184	—	7,731,002
Buildings and improvements	2,686,252	245,059	(2,090)	2,929,221
Equipment	221,585	32,750	(9,606)	244,729
Total capital assets being depreciated	10,511,655	404,993	(11,696)	10,904,952
Less accumulated depreciation:				
Infrastructure	(3,134,930)	(187,409)	—	(3,322,339)
Buildings and improvements	(1,385,921)	(91,015)	1,488	(1,475,448)
Equipment	(174,635)	(17,865)	8,714	(183,786)
Total accumulated depreciation	(4,695,486)	(296,289)	10,202	(4,981,573)
Total capital assets	$ 8,951,040	$ 489,294	$ (344,342)	$ 9,095,992

	Business-Type Activities			
	Balance, July 1, 2004	Additions	Deletions	Balance, June 30, 2005
Capital assets not being depreciated:				
Land and land improvements	$ 551,413	$ 4,405	$ —	$ 555,818
Construction in progress	86,479	70,436	(31,363)	125,552
Total capital assets not being depreciated	637,892	74,841	(31,363)	681,370
Capital assets being depreciated:				
Buildings and improvements	2,496,766	17,738	—	2,514,504
Equipment	182,835	8,889	(6,211)	185,513
Total capital assets being depreciated	2,679,601	26,627	(6,211)	2,700,017
Less accumulated depreciation:				
Buildings and improvements	(1,123,349)	(87,014)	—	(1,210,363)
Equipment	(159,483)	(6,475)	5,935	(160,023)
Total accumulated depreciation	(1,282,832)	(93,489)	5,935	(1,370,386)
Total capital assets	$ 2,034,661	$ 7,979	$ (31,639)	$ 2,011,001

Depreciation expense for the fiscal year ended June 30, 2005 was charged to functions/programs of the Primary Government as follows:

Governmental Activities:	
General government	$ 19,201
Public safety	11,199
Highways	187,544
Conservation of natural resources	7,961
Health	4,456
Welfare	1,415
Lower education	47,018
Culture and recreation	944
Urban redevelopment and housing	16,551
Total depreciation expense – governmental activities	$ 296,289
Business-Type Activities:	
Airports	$ 77,491
Harbors	15,998
Total depreciation expense – business-type activities	$ 93,489

(5) GENERAL OBLIGATION BONDS PAYABLE

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

All issues except Series BL, issued December 6, 1988; certain maturities of Series BQ, issued November 28, 1989; Series BW, issued March 1, 1992; Series BZ issued October 1, 1992; Series CA and CB, issued January 1, 1993; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; Series CS, issued April 1, 1998; and Series DC, issued September 16, 2003, contain call provisions (call prices range from $100 to $103). Stated interest rates range from 2.625% to 8.0%.

In fiscal 2005, the State issued $225,000,000 of general obligation bonds, Series DE, dated November 10, 2004, with interest rates ranging from 2.625% to 5.00%. Bonds maturing on and after October 1, 2014 are subject to redemption at the option of the State at any time on and after October 1, 2014 at a price equal to the principal amount thereof, plus accrued interest to the redemption date. The bonds were issued for the purpose of financing public improvement projects.

In fiscal 2005, the State issued $225,000,000 of general obligation bonds, Series DF, dated June 15, 2005, with interest rates ranging from 3.00% to 5.00%. Bonds maturing after July 1, 2015 will be subject to redemption at the option of the State at any time on and after July 1, 2015 at a price equal to the principal amount thereof plus accrued interest to the redemption date. The bonds were issued for the purpose of financing the Hawaiian Home Lands settlement and public improvement projects.

On June 15, 2005, the State issued $722,575,000 and $18,735,000 of General Obligation Refunding Bonds of 2005, Series DG and DH, with an interest rate of 5.00% to advance refund $753,930,000 of certain outstanding general obligation bonds previously issued. The net proceeds of $808,623,839 (including a premium of $70,844,362 and after payment of $3,530,523 in underwriting fees, insurance, and other issuance costs) 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.

As a result of the advance refunding, the State reduced its total debt service payments over the next 13 years by $55,363,424 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $37,769,514.

Additionally, the Series DG bonds maturing on and after July 1, 2015 are subject to redemption at the option of the State at any time on and after July 1, 2015 at a price equal to the principal amount thereof, plus accrued interest to the redemption date. The Series DH bonds will mature on June 1, 2006, with interest payable at maturity.

At June 30, 2005, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable		$ 3,318,575
Noncallable		948,733
Total general obligation bonds outstanding		4,267,308
Less amount recorded as a liability of:		
Proprietary Funds (business-type activities), including $21 payable from restricted assets	$ 167	
Component Unit – UH	10,508	
		10,675
Amount recorded in the governmental activities of the Primary Government		$ 4,256,633

A summary of general obligation bonds outstanding by series as of June 30, 2005 follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates		Amount Outstanding
X	August 1, 1972	4.000%	August 1, 2005 – 2007	$	900
BL	December 6, 1988	7.681%	December 1, 2005 – 2008		16,250
BQ	November 28, 1989	7.100% – 7.150%	December 1, 2005 – 2009		22,223
BW	March 1, 1992	6.250% – 6.400%	March 1, 2006 – 2012		27,680
BZ	October 1, 1992	5.800% – 6.000%	October 1, 2005 – 2012		100,000
CA	January 1, 1993	5.500% – 8.000%	January 1, 2006 – 2013		40,000
CB	January 1, 1993	5.500% – 5.750%	January 1, 2006 – 2008		24,885
CC	February 1, 1993	5.125%	February 1, 2007 – 2009		71,745
CG	July 1, 1993	4.900% – 5.000%	July 1, 2005 – 2006		2,725
CH	November 1, 1993	4.750% – 6.000%	November 1, 2005 – 2013		124,990
CI	November 1, 1993	4.500% – 4.900%	November 1, 2005 – 2010		126,750
CK	September 1, 1995	5.000%	September 1, 2005		5,555
CL	March 1, 1996	5.100% – 6.000%	March 1, 2006 – 2010		27,775
CM	December 1, 1996	6.000% – 6.500%	December 1, 2005 – 2016		99,990
CN	March 1, 1997	6.000% – 6.250%	March 1, 2006 – 2009		75,610
CO	March 1, 1997	6.000%	September 1, 2005 – 2010, March 1, 2006 – 2011		135,430
CP	October 1, 1997	5.500% – 5.500%	October 1, 2005 – 2017		90,065
CR	April 1, 1998	5.000% – 5.750%	April 1, 2006 – 2008		37,505
CS	April 1, 1998	5.000% – 5.250%	April 1, 2006 – 2009		206,805
CT	September 15, 1999	5.250% – 5.625%	September 1, 2005 – 2012		73,350
CU	October 15, 2000	4.600% – 5.750%	October 1, 2005 – 2012		55,805
CV	August 1, 2001	4.800% – 5.500%	August 1, 2005 – 2021		254,785
CW	August 1, 2001	3.400% – 5.500%	August 1, 2005 – 2015		151,720
CX	February 15, 2002	3.600% – 5.500%	February 1, 2007 – 2022		201,645
CY	February 15, 2002	3.600% – 5.750%	February 1, 2007 – 2015		317,740
CZ	November 26, 2002	2.650% – 5.500%	July 1, 2007 – 2020, 2022		170,980
DA	September 16, 2003	2.800% – 5.250%	September 1, 2008 – 2023		217,885
DB	September 16, 2003	2.800% – 5.250%	September 1, 2008 – 2016		188,650
DC	September 16, 2003	3.000%	September 1, 2005		23,730
DD	May 13, 2004	3.500% – 5.250%	May 1, 2011 – 2024		182,825
DE	November 10, 2004	2.625% – 5.000%	October 1, 2009 – 2024		225,000
DF	June 15, 2005	3.000% – 5.000%	July 1, 2009 – 2024		225,000
DG	June 15, 2005	5.000%	July 1, 2009 – 2017		722,575
DH	June 15, 2005	5.000%	June 1, 2006		18,735
				$	4,267,308

A summary of debt service requirements to maturity follows (amounts expressed in thousands):

		Principal		Interest		Total
Fiscal year:						
2006	$	286,639	$	212,024	$	498,663
2007		310,120		221,554		531,674
2008		323,825		207,844		531,669
2009		338,569		193,100		531,669
2010		319,910		161,174		481,084
2011 – 2015		1,443,900		505,389		1,949,289
2016 – 2020		802,290		203,491		1,005,781
2021 – 2025		423,010		51,446		474,456
2025 – 2026		19,045		462		19,507
	$	4,267,308	$	1,756,484	$	6,023,792

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 refunded bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2005, $1,360,620,000 of bonds outstanding is considered defeased.

The State Constitution limits the amount of general obligation bonds which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2005 was $231,475,000.

At June 30, 2005, general obligation bonds authorized but unissued was approximately $676,372,000.

(6) REVENUE BONDS PAYABLE

A. Governmental Activities

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

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates of 5.00% and 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The net proceeds of $139,248,017 (including a premium of $15,000,441 and after payment of $1,068,439 in underwriting fees, insurance, and other issuance costs), along with an additional $1,401,015 from the debt service reserve account, 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 highway revenue 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.

As a result of the advance refunding, the State reduced its total debt service payments over the next 17 years by $12,042,106 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $8,943,887.

On March 25, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with an average interest rate of 4.33% to advance refund $45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The bonds are payable semiannually on January and July 1 through 2014.

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

On October 31, 2000, Highways issued State of Hawaii Highway Revenue Bonds, Series of 2000, in the principal amount of $45,360,000. The bonds bear interest at rates ranging from 4.40% to 5.50% and mature in annual installments through fiscal 2011.

On January 15, 1999, the Department of Hawaiian Home Lands (DHHL) issued revenue bonds, Refunding Series of 1999, in the principal amount of $13,370,000. Bond proceeds related to this issue amounted to $13,334,000. The difference in the principal amount and proceeds relates to bond discount and accrued interest. The bonds bear interest at rates ranging from 3.80% to 4.45% and mature in increasing annual installments through fiscal 2012. The proceeds from the bonds were used to advance refund certain maturities of the Series of 1991 bonds. The bonds are payable from and secured by the DHHL's revenues from available lands.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 is to be used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to refund certain outstanding State of Hawaii Highway Revenue Bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates ranging from 4.00% to 5.50% and mature in annual installments through fiscal 2019.

On September 1, 1996, Highways issued $55,000,000 in State of Hawaii Highway Revenue Bonds, Series of 1996. The bonds bear interest at rates ranging from 3.80% to 6.00% and mature in increasing annual installments through fiscal 2010.

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 the DHHL and Highways defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2005, bonds outstanding considered defeased amounted to $133,600,000.

The following is a summary of Highways' and DHHL's revenue bonds issued and outstanding at June 30, 2005 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Outstanding Amount
Highways:				
1996	September 1, 1996	6.00%	July 1, 2007 – July 1, 2009	$ 8,500
1998	July 1, 1998	4.50% – 5.50%	July 1, 2005 – July 1, 2018	38,920
2000	October 31, 2000	3.75%	July 1, 2005 – July 1, 2010	12,515
2001	October 25, 2001	4.00% – 5.25%	July 1, 2005 – July 1, 2022	24,490
2003	April 15, 2003	2.50% – 5.00%	July 1, 2005 – July 1, 2013	41,065
2005 A	March 15, 2005	3.00% – 5.00%	July 1, 2006 – July 1, 2025	60,000
2005 B	March 15, 2005	3.00% – 5.25%	July 1, 2010 – July 1, 2021	123,915
DHHL:				
1999	January 15, 1999	3.80% – 4.45%	July 1, 2005 – July 1, 2011	9,900
				$ 319,305

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

	Principal	Interest	Total
Fiscal year:			
2006	$ 13,050	$ 12,947	$ 25,997
2007	15,595	14,165	29,760
2008	16,240	13,528	29,768
2009	16,905	12,826	29,731
2010	17,615	12,049	29,664
2011 – 2015	95,380	47,986	143,366
2016 – 2020	102,760	22,883	125,643
2021 – 2025	37,290	4,756	42,046
2026	4,470	101	4,571
	$ 319,305	$ 141,241	$ 460,546

B. 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.

On January 5, 2005, Airports redeemed \$69,300,000 of Airports System Revenue Bonds, Refunding Series of 2003. As a result, the liability has been removed from the accompanying basic financial statements.

The following is a summary of Airports system revenue bonds issued and outstanding at June 30, 2005 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
1994, first refunding	4.15% – 5.60%	2004	$ 63,455	$ —
2000A, refunding	5.50% – 6.00%	2021	26,415	26,415
2000B, refunding	5.00% – 8.00%	2020	261,465	249,275
2001, refunding	4.00% – 5.75%	2021	423,255	423,255
2003, refunding	2.00% – vary	2013	80,900	—
			$ 855,490	698,945
Add unamortized premium				13,121
Less:				
Unamortized discount				(862)
Deferred loss on refunding				(16,244)
Current portion				(25,250)
Noncurrent portion				$ 669,710

The liabilities for the 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, 2005, bonds outstanding considered defeased amounted to \$74,030,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provide reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverages for fire, workers' compensation, and public liability. At June 30, 2005, $183,525,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

Airports Special Facility Revenue Bonds

Airports has four special facility lease agreements with Delta Airlines, Inc. in 1987, Continental Airlines, Inc. in November 1997 and July 2000, and Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $2,300,000, $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 $38,860,000 at June 30, 2005.

The following is a summary of pertinent information on Airports special facility revenue bonds at June 30, 2005:

$2,300,000 Issue

The bonds with a stated maturity date of June 1, 2005 were repaid in full on June 1, 2005.

$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 Airlines, Inc., at prices ranging from $101 to $100, depending on the dates of redemption, or at $100 plus interest if the facilities are destroyed or damaged extensively.

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

$16,600,000 Issue

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

$6,600,000 Issue

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2000, at the option of Airports, upon the request of Caterair International Corporation, 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.

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.

On June 10, 2004, Harbors issued $5,730,000 of Harbors Revenue Bonds, Series A of 2004, and $46,300,000 of Harbors Revenue Bonds, Series B of 2004. The Series A of 2004 bonds will mature through the year 2008 at an average interest rate of 4.20%, and the Series B of 2004 bonds will mature through the year 2024 at an average interest rate of 5.12%. The 2004 bonds, totaling $52,030,000, were issued at an average interest rate of 4.98% to refund $5,760,000 of Series of 1993 bonds (average interest rate of 6.09%) and $45,765,000 of Series of 1994 bonds (average interest rate of 6.20%). Total net proceeds of $52,474,330 (including a premium of $1,285,009 and after payment of $840,679 in underwriting fees, insurance, and other issuance costs), along with an additional $5,323,718 from the debt service reserve account, were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Series of 1993 and Series of 1994 bonds, on July 1, 2004.

Although the refunding resulted in the recognition of a deferred loss of $2,184,199, Harbors in effect reduced its aggregate debt service payments by approximately $7,573,128 over the next 20 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $4,129,526.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Harbors defeased its obligations for payment of those bonds upon completion of those refunding transactions. Accordingly, as of June 30, 2005, bonds outstanding considered defeased amounted to nil.

The following is a summary of the Harbors revenue bonds as of June 30, 2005 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current Principal Due July 1, 2005	Current Principal Due January 1, 2006	Total	Noncurrent
1997	July 1, 2027	3.95% – 5.75%	$ 56,290	$ 485	$ —	$ 485	$ 52,915
2000	July 1, 2029	4.50% – 6.00%	79,405	2,140	—	2,140	66,145
2002	July 1, 2019	3.00% – 5.50%	24,420	2,010	—	2,010	18,290
2004	January 1, 2024	2.50% – 6.00%	52,030	—	4,390	4,390	43,515
			$ 212,145	4,635	4,390	9,025	180,865
Add unamortized premium						231	963
Less:							
Unamortized discount						(141)	(1,770)
Unamortized deferred loss on refunding						(640)	(4,211)
				$ 4,635	$ 4,390	$ 8,475	$ 175,847

Harbors Special Facility Revenue Bonds

In 1980, the State Legislature authorized the issuance of special facility revenue bonds for the construction, acquisition, remodeling, furnishing, and equipping of state-owned special facilities for lease to parties engaged in maritime operations.

Pursuant to this authorization, $15,700,000 of 8-1/2% special facility revenue bond anticipation notes were issued in 1981 to finance the construction of container terminal facilities on Sand Island for the exclusive use of Matson Terminals, Inc. In 1983, special facility revenue bonds of $16,750,000 were issued to refund the notes and to provide additional funds for construction. On April 15, 1993, special facility revenue bonds of $16,500,000 were issued to refund the outstanding Series of 1983 bonds. The bonds, which bear interest at 5.75% per annum, mature on March 1, 2013, subject to optional redemption on or after March 1, 2003, at prices ranging from $102 to $100 of face value. Payment of the principal and interest on the bonds has been guaranteed by Matson Navigation Company, Inc., parent company of the lessee.

On September 18, 2003, the bonds were redeemed in full at a price of 102% of the principal together with interest accrued to the redemption date. The remaining net investment in direct lease financing on the date of redemption was reclassified into buildings.

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):

	Principal	Interest	Total
Fiscal year:			
2006	$ 40,875	$ 51,941	$ 92,816
2007	43,053	49,755	92,808
2008	31,680	47,401	79,081
2009	31,403	45,686	77,089
2010	33,270	43,912	77,182
2011 – 2015	247,850	182,785	430,635
2016 – 2020	364,303	93,325	457,628
2021 – 2025	68,223	16,847	85,070
2026 – 2029	34,960	4,533	39,493
	$ 895,617	$ 536,185	$ 1,431,802

C. Revenue Bonds Authorized But Unissued

At June 30, 2005, revenue bonds authorized but unissued was approximately $2,826,191,000.

D. 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, 2005 amounted to $1,481,501,000. At June 30, 2005, special purpose revenue bonds of $1,259,809,000 were authorized but unissued.

E. Improvement District Bonds

The Hawaii Community Development Authority 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. Bonds outstanding as of June 30, 2005 amounted to $900,000.

(7) CHANGES IN LONG-TERM LIABILITIES

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

	Governmental Activities				
	Balance, July 1, 2004	Additions	Deductions	Balance, June 30, 2005	Due within one year
General obligation bonds payable, net (note 5)	$ 3,954,192	$ 1,191,310	$ (888,869)	$ 4,256,633	$ 282,368
Accrued vacation payable	158,755	88,093	(72,720)	174,128	57,689
Revenue bonds payable (note 6)	276,680	183,915	(141,290)	319,305	13,050
Reserve for losses and loss adjustment costs (note 13)	103,500	9,800	(24,200)	89,100	68,600
Claims and judgments payable (note 12)	236,600	14,200	(30,000)	220,800	30,000
Capital lease obligations (note 10)	64,485	—	(3,145)	61,340	3,305
Total	$ 4,794,212	$ 1,487,318	$ (1,160,224)	$ 5,121,306	$ 455,012

	Business-Type Activities				
	Balance, July 1, 2004	Additions	Deductions	Balance, June 30, 2005	Due within one year
General obligation bonds payable, net (note 5)	$ 196	$ —	$ (29)	$ 167	$ 30
Accrued vacation and retirement benefits payable	9,083	4,755	(3,856)	9,982	2,791
Revenue bonds payable (note 6)	1,017,445	—	(89,750)	927,695	35,240
Reserve for losses and loss adjustment costs	4,100	1,556	(1,103)	4,553	1,032
	1,030,824	6,311	(94,738)	942,397	39,093
Add unamortized premium	16,536	—	(2,217)	14,319	231
Less:					
Unamortized net discount	(2,980)	—	204	(2,776)	(141)
Deferred amount on refunding	(24,875)	—	3,779	(21,096)	(640)
	$ 1,019,505	$ 6,311	$ (92,972)	$ 932,844	$ 38,543

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 80% and 18% of the accrued vacation liability has been paid by the General Fund and Special Revenue Funds, respectively, during the fiscal year ended June 30, 2005.

(Continued)

(8) INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2005 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Capital Projects Fund	$ 89,900	$ —
Nonmajor Governmental Funds	41,268	184
UH	6,000	9,026
HHSC	14,000	—
	151,168	9,210
Capital Projects Fund:		
General Fund	—	89,900
Harbors	1,239	—
	1,239	89,900
Nonmajor Governmental Funds:		
General Fund	184	41,268
Proprietary Funds:		
Harbors:		
Capital Projects Fund	—	1,239
Component Units:		
UH:		
General Fund	9,026	6,000
HHSC:		
General Fund	—	14,000
	$ 161,617	$ 161,617

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

(9) TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2005, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund:		
Nonmajor Governmental Funds	$ 68,225	$ 296,458
Capital Projects Fund:		
Nonmajor Governmental Funds	124,525	5,890
Nonmajor Governmental Funds:		
General Fund	296,458	68,225
Capital Projects Fund	5,890	124,525
	302,348	192,750
	$ 495,098	$ 495,098

The General Fund transferred approximately $257,700,000 to the Nonmajor Governmental Funds for debt service payments and approximately $37,900,000 to subsidize various Special Revenue Funds programs. Approximately $124,500,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

(10) LEASES

A. Lease Commitments

Governmental Activities

The State leases office facilities and equipment under various operating leases expiring through fiscal 2028. Future minimum lease commitments for noncancelable operating leases as of June 30, 2005 were as follows (amounts expressed in thousands):

Fiscal year:	
2006	$ 6,078
2007	4,647
2008	3,168
2009	1,911
2010	1,267
2011 – 2015	5,450
2016 – 2020	4,210
2021 – 2025	1,931
2026 – 2028	112
Total future minimum lease payments	$ 28,774

Rent expenditures for operating leases for the fiscal year ended June 30, 2005 amounted to approximately $47,000,000.

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

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

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

Fiscal year:		
2006	$	6,357
2007		6,352
2008		6,347
2009		6,354
2010		6,350
2011 – 2015		31,752
2016 – 2020		22,956
Total future minimum lease payments		86,468
Less amount representing interest		(25,128)
Present value of net minimum lease payments	$	61,340

B. Lease Rentals

Airports – Airport-Airline Lease Agreement

Airports had an airport-airline lease agreement with certain major airline carriers (signatory airlines) which expired on July 31, 1992. The expired lease agreement provided the lessees with the nonexclusive right to use the Airports system facilities, equipment, improvements, and services, in addition to occupying certain premises and facilities. From August 1, 1992 through June 30, 1993, the signatory airlines continued operations under monthly negotiated agreements with the DOT.

In January 1994, the DOT and the signatory airlines executed a letter agreement to extend the expired airport-airline lease agreement to June 30, 1994. Under the terms of the letter agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to Airports system rates and charges, which include landing fees, nonexclusive joint-use premise charges for terminal rentals (overseas terminal, new interisland terminal, and the international arrivals building), exclusive use premise rentals, and Airports system support charges. The letter agreement further stipulated that the aggregate of all such rates and charges, together with aviation fuel taxes (as adjusted for aviation fuel tax credits), payable to the DOT by the signatory airlines would not exceed $84,175,000. The foregoing rates and charges were adjusted retroactively to July 1, 1993.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the expired airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to Airports system rates and charges. The nature of these charges is similar to those of the expired letter agreement; however, the lease extension agreement does not stipulate a maximum amount for aggregate Airports system charges. Instead, the lease extension agreement's residual rate-setting methodology provides for a final year-end reconciliation containing actual Airports system cost data to determine whether Airports system charges assessed to the signatory airlines were sufficient to recover Airports system costs, including debt service requirements under the certificate providing for the issuance of revenue bonds. Annual settlements based on this final reconciliation are made in accordance with the terms of the lease extension agreement.

The DOT and the signatory airlines have mutually agreed to continue to operate under the terms of the lease extension agreement, which provides for an automatic extension on a quarterly basis unless either party provides 60 days written notice to the other party of termination.

Airports – Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). During fiscal 2000, the parties agreed to transfer the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal years 1996 through 2005 have been transferred to the PAUCF. Airports paid $1,348,000 out of the PAUCF to the signatory airlines in fiscal 2005.

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 $3,434,444 for fiscal 2005.

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 $35,463,143 for fiscal 2005 based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $26,465,067 for fiscal 2005. For fiscal 2004, the State waived the signatory airlines' underpayment of nonexclusive joint-use premise charges of $1,637,867 and transferred $414,657 of overpayments into the PAUCF in fiscal 2005. 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 $27,661,775 for fiscal 2005 and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $15,418,791 for fiscal 2005.

- Airports system support charges amounted to $655,759 for fiscal 2005. 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 inter-island support charges for nonsignatory airlines are set at 32% of 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, 2005 was approximately $51,740,336.

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 44% of total concession fees revenues for the fiscal year ended June 30, 2005.

As of June 30, 2003, DFS was in significant arrears in the rents due to Airports. A significant cause of DFS's financial difficulty stemmed from the downturn in Hawaii's economy as a result of the decrease in international visitor travel. Although the Governor had granted temporary rent relief to Airports' concessionaires throughout fiscal 2002 and 2003, the major concessionaire was unable to bring the rent due to a current basis.

After a significant amount of negotiation between Airports and DFS, both parties entered into a Withdrawal and Settlement Agreement (Agreement) effective August 1, 2003. Under the terms of the Agreement, DFS would bring current the amounts due for the in-bond concession and retail concessions, based on compromised amounts. DFS would execute a promissory note to the State for the underpaid rent from January through May 2003 under the in-bond lease. In addition, the current in-bond concession lease would be terminated early and rebid in September 2003. DFS would be required to submit the minimum amount of the bid set by Airports.

DFS was the only bidder on the new in-bond concession and was awarded the contract on September 29, 2003. The new contract provides for a minimum annual guarantee rent, as well as percentage rent on annual gross receipts exceeding certain levels.

The DFS concession contracts provide for quarterly advance payments due on March 1, June 1, September 1, and December 1 of each year.

Harbors – Aloha Tower Complex Development

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

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

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

Discussions have been on-going between Harbors and the ATDC to revise the provisions in the lease requiring the ATDC to annually reimburse Harbors for any losses in revenues during the term of the lease. The outcome of these discussions may result in an amendment of the lease which will alter the obligations of the ATDC to reimburse Harbors on an annual basis from and after July 1, 2004.

The loss in revenues for fiscal 2005 amounted to $1,848,086 and has been included in Harbors' rental revenues. As of June 30, 2005, the amount due to Harbors was $9,899,449. Accordingly, Harbors have fully provided an allowance for such amount.

Harbors – Leasing Operations

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

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2005 (amounts expressed in thousands):

	Proprietary Funds		
	Airports	**Harbors**	**Total**
Fiscal year:			
2006	$ 59,522	$ 9,052	$ 68,574
2007	49,595	8,473	58,068
2008	14,360	8,291	22,651
2009	9,047	8,356	17,403
2010	8,503	8,276	16,779
Thereafter	88,215	313,155	401,370
	$ 229,242	$ 355,603	$ 584,845

C. 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, 2005, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 72,660
Less amount representing interest	(37,486)
	35,174
Cash with trustee and other	3,951
	$ 39,125

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2005 consisted of the following (amounts expressed in thousands):

Fiscal year:		
2006	$	3,470
2007		3,425
2008		3,383
2009		3,357
2010		3,398
Thereafter		59,578
	$	76,611

(11) RETIREMENT BENEFITS

A. 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 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 option. In 1984, legislation was enacted to add a new noncontributory option 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 option. The noncontributory option 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 option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

Both options 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.

B. Funding Policy

Most covered employees of the contributory option 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. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 27 years from June 30, 2002.

The State's contribution requirements as of June 30, 2005, 2004, and 2003 were approximately \$251,685,000, \$181,614,000, and \$158,622,000, respectively. The State contributed 100% of its required contributions for those years. Act 233, SLH of 2002, increased the 2003 contribution by providing a one-time lump-sum pensioner bonus to retirees who were 70 years and older with at least 20 years of credited service as of June 30, 2002. Also, Act 284, SLH of 2001, provided an increase in the pension benefits effective 2003 to retirees with military service. Covered payroll for the fiscal year ended June 30, 2005 was approximately \$2,079,054,000.

C. Post-Retirement Health Care and Life Insurance Benefits

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

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 25,000 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2005, expenditures of \$177,691,000 were recognized for post-retirement health care and life insurance benefits, approximately \$35,876,000 of which is attributable to the Component Units.

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

(12) COMMITMENTS AND CONTINGENCIES

A. Commitments

General Obligation Bonds

The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see note 5). At June 30, 2005, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:		
Economic Development	$	265,674
Highways		94,784
Agriculture		8,129
Natural Resources		7,926
All Other		7,423
Administrative Support		1,096
	$	385,032

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, 2005, accumulated sick leave was approximately $1,258,181,000.

Intergovernmental Expenditures

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

Guarantees of Indebtedness

The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $191,000,000 for aquacultural loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Unit – HCDCH. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2005.

B. Proprietary Fund Type – Enterprise Funds

Construction and Service Contracts

At June 30, 2005, the Enterprise Funds had commitments of approximately $120,467,000 for construction and service contracts.

C. 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, 2005, 2004, and 2003 approximated $1,200,000, $6,200,000, and $14,000,000, 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. Through June 30, 2005, the State has received approximately $38,008,000. 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. As of June 30, 2005, the State expects to receive $18,700,000 for the first six months of 2005.

Office of Hawaiian Affairs

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

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

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

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

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

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

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

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

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii,* 96 Haw., 388 (2001) that Act 304 was effectively repealed by its own terms, and that there were no judicially manageable standards by which to determine whether OHA was entitled to the revenue it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. See *OHA v. State*, 96 Haw., 388 (2002). The Hawaii Supreme Court dismissed the case for lack of justiciability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. The State Legislature took no action during the 2002 legislative session, and the State's payments of 20% of "revenue" were discontinued as of the first quarter in fiscal 2002.

The State Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the ceded lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued

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

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

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

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

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

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

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

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

The State intends to vigorously defend against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any. Accordingly, no estimate of loss has been made in the accompanying basic financial statements. However, 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 Education and Department of Health

Felix v. Lingle, Civil No. 93-00367 (U.S. District Court for the District of Hawaii) (Felix). This case involves the State's responsibility under federal law to provide mental health services as a related service to children and adolescents who need such services to benefit from special education. After the U.S. District Court granted partial summary judgment as to liability in the Plaintiffs' favor, the parties entered into a consent decree which allowed the State to plan and implement a new system of care. Under the consent decree and the supervision of the U.S. District Court, the State has been implementing a plan to improve the provision of such services. Because of the failure of the State to timely complete the implementation plan approved by the U.S. District Court, the State was held in contempt of court and the consent decree was extended to June 30, 2001 for completion of infrastructure to support the delivery of services and December 31, 2001 for substantial compliance with the consent decree.

The State avoided the U.S. District Court's imposition of a federal court-appointed receiver by meeting the court's revised benchmarks and conditions which the State was ordered to fulfill. At a hearing held on November 30, 2001, the U.S. District Court determined that the State had made significant progress in meeting the terms of the consent decree and, therefore, that a federal receiver was not necessary. On September 10, 2002, the court ruled that the State was in substantial compliance with the consent decree as of June 30, 2002. However, the court ordered the federal court supervision to continue until December 31, 2003.

Due to the scheduling needs of the U.S. District Court and the parties, stipulations were entered into by the parties extending U.S. District Court oversight and control over the Revised Consent Decree until April 30, 2004. At a hearing on April 8, 2004, the U.S. District Court approved the parties' stipulation, which provides for the termination of jurisdiction 30 days after the publication of the State's fifth quarterly sustainability report (anticipated to be on or about May 30, 2005). The federal court's oversight of special education (Felix) ended with the securing of a judgment and dismissal of the Felix case. The federal court's jurisdiction terminated on May 31, 2005. The case has been resolved.

Department of Hawaiian Home Lands

Hawaiian Home Lands Trust Fund

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

The State transferred $30,000,000 to the Hawaiian Home Lands Trust Fund during the fiscal year ended June 30, 2005.

As of June 30, 2005, the State has transferred approximately $300,000,000 to the Hawaiian Home Lands Trust Fund. The State's remaining $300,000,000 obligation discounted at 6% and assuming annual payments of $30,000,000 over the remaining term of the obligation is approximately $220,800,000. Such amount has been included in claims and judgments payable in the accompanying statement of net assets.

Transfer of Property

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

Individual Claims

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

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

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

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

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

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

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

The First Circuit Court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court, and entered an order staying all proceedings in *Kalima I* pending the Hawaii Supreme Court's disposition of the appeal. By an order entered on September 20, 2001; however, that appeal was dismissed by the Hawaii Supreme Court for lack of appellate jurisdiction. Since then, the State has secured a certification of finality for the August 30, 2000 order from the court, and filed another notice of appeal of the orders so that the questions of law the court decided can be reviewed by the Hawaii Supreme Court prior to trial. All briefs have been filed and the parties are awaiting oral argument or a decision from the court in this second appeal. All proceedings in *Kalima I* in the court remain stayed, and no trial date has been set in either *Kalima I* or any of the other individual claims cases.

At the present time, the State is not able to estimate with any reasonable certainty the magnitude of the potential liability related to these individual claims cases. Accordingly, no estimate of loss has been made in the accompanying basic financial statements. However, an ultimate decision against the State could have a material adverse effect on the financial position of the State.

(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:

A. Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible is $250,000 per occurrence. The deductible for coverage is 3% of loss subject to a $250,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, tsunami, and volcanic action coverage with a deductible of 3% of loss subject to a $250,000 minimum. The limit of loss per occurrence is $100,000,000, except for flood and earthquake which is $25,000,000. This policy also includes terrorism coverage whose limit of loss per occurrence is $50,000,000 with a deductible of $250,000 per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

B. General Liability (including Torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $3,000,000 deductible 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.

C. Medical Insurance

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $20,000,000 per occurrence and in the aggregate.

D. 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.

E. 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, 2005 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 (amounts expressed in thousands):

	2005	2004
Unpaid losses and loss adjustment costs at the beginning of the fiscal year	$ 103,500	$ 102,100
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	11,400	18,800
Increase (decrease) in provision for insured events of prior fiscal years	(1,600)	200
Total incurred losses and loss adjustment costs	9,800	19,000
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(2,600)	(2,000)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(21,600)	(15,600)
Total payments	(24,200)	(17,600)
Unpaid losses and loss adjustment costs at the end of the fiscal year	$ 89,100	$ 103,500

(14) SPECIAL AND EXTRAORDINARY ITEMS

In fiscal 2005, the HHSC received $5,169,021 from the State for construction of the new veterans' long-term care facility. Of this amount, $1,641,894 was expended for planning and design costs, and is included in construction in progress in the statement of net assets. The remaining $3,527,127 was expended to demolish an old, existing building on the campus site, and is included as a special item in the statement of activities, due to the infrequent nature of such expenditures by the HHSC.

The UH at Manoa campus experienced significant flooding as a result of heavy rains that fell on October 30, 2004. Approximately 35 buildings and their contents sustained moderate to severe damage. The UH received disaster aid in the form of a $22.0 million appropriation from the State Legislature, as well as $500,000 in State Civil Defense monies to help in the clean-up, repair, and replacement of infrastructure, books, and equipment. Clean-up and repair expenditures amounted to approximately $20.7 million, or 90.8%, of the $22.8 million flood expenditure total.

For fiscal 2006, an additional $31.0 million was appropriated by the Sate Legislature to the UH for on-going flood repairs.

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SUPPLEMENTARY INFORMATION

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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.

Wastewater – accounts for programs related to the water sanitation of the State.

Health – accounts for programs related to mental health, nutrition services, communicable disease, and for other public health services.

Med-Quest – accounts for the programs related to the health care programs of the State.

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, 2005
(Amounts in thousands)

	Special Revenue Funds						
ASSETS	Highways	Natural Resources	Wastewater	Health	Med-Quest	Human Services	Education
Cash and short-term investments	$ 36,597	$ 16,487	$ 16,823	$ 14,438	$ 4,081	$ 13,568	$ 13,805
Receivables:							
Taxes	—	—	—	—	—	—	—
Accrued interest	1,560	234	—	936	—	—	78
Notes and loans, net	—	18,688	160,284	—	—	—	—
Federal government	—	—	—	—	—	37,500	—
Other	3,418	—	—	—	—	—	—
Due from other funds	—	—	275	—	—	—	—
Investments	240,297	74,252	123,429	98,611	2,000	27,965	54,438
Other assets	—	1	—	—	—	—	—
Total Assets	$ 281,872	$ 109,662	$ 300,811	$ 113,985	$ 6,081	$ 79,033	$ 68,321
LIABILITIES AND FUND BALANCES							
Liabilities:							
Vouchers and contracts payable	$ 7,071	$ 828	$ 7	$ 4,621	$ 4	$ 377	$ 2,341
Other accrued liabilities	294	638	54	1,459	—	181	1,717
Due to other funds	—	—	—	275	—	41,268	—
Payable from restricted assets -- matured bonds and interest payable	—	—	—	—	—	—	—
Total Liabilities	7,365	1,466	61	6,355	4	41,826	4,058
Fund Balances:							
Reserved for:							
Continuing appropriations	141,792	26,792	5,099	54,068	9,832	45,863	30,676
Receivables and advances	—	18,688	160,284	—	—	—	—
Bond redemption and other	—	33,826	8,766	—	—	—	—
Unreserved for Special Revenue Funds:							
Designated for future expenditures	11,765	17,835	174,517	—	—	—	44,984
Undesignated	120,950	11,055	(47,916)	53,562	(3,755)	(8,656)	(11,397)
Total Fund Balances	274,507	108,196	300,750	107,630	6,077	37,207	64,263
Total Liabilities and Fund Balances	$ 281,872	$ 109,662	$ 300,811	$ 113,985	$ 6,081	$ 79,033	$ 68,321

See accompanying independent auditors' report.

Special Revenue Funds: Economic Development	Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
$ 7,080	$ 4,935	$ 4,800	$ 6,524	$ 15,908	$ 8,963	164,009	$ 803	$	$ 164,812
7,100	—	—	—	—	—	7,100	—		7,100
312	156	156	156	273	39	3,900	—		3,900
167	—	—	46,541	—	—	225,680	—		225,680
—	—	—	—	—	—	37,500	—		37,500
—	—	—	—	—	—	3,418	—		3,418
—	—	—	—	—	—	275	184	(275)	184
66,474	34,014	37,588	48,361	105,969	13,744	927,142	—		927,142
—	—	—	—	—	—	1	—		1
$ 81,133	$ 39,105	$ 42,544	$ 101,582	$ 122,150	$ 22,746	$ 1,369,025	$ 987	$ (275)	$ 1,369,737
$ 4,206	$ 337	$ 137	$ 65	$ 376	$ 713	$ 21,083	$ —	$	$ 21,083
320	971	909	166	1,371	440	8,520	—		8,520
—	—	—	—	—	—	41,543	—	(275)	41,268
—	—	—	—	—	—	—	803		803
4,526	1,308	1,046	231	1,747	1,153	71,146	803	(275)	71,674
32,704	450	4,145	6,159	13,936	11,747	383,263	184		383,447
167	—	—	46,541	—	—	225,680	—		225,680
6,766	—	—	1,993	—	—	51,351	—		51,351
5,816	—	—	2,634	24,326	9,807	291,684	—		291,684
31,154	37,347	37,353	44,024	82,141	39	345,901	—		345,901
76,607	37,797	41,498	101,351	120,403	21,593	1,297,879	184	—	1,298,063
$ 81,133	$ 39,105	$ 42,544	$ 101,582	$ 122,150	$ 22,746	$ 1,369,025	$ 987	$ (275)	$ 1,369,737

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Wastewater	Health	Med-Quest	Human Services	Education
Revenues:							
Taxes:							
General excise tax	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Transient accommodations tax	—	1,000	—	—	—	—	—
Tobacco and liquor taxes	—	—	—	—	—	—	—
Liquid fuel tax	80,913	243	—	—	—	—	—
Tax on premiums of insurance companies	—	—	—	—	—	—	—
Vehicle weight and registration tax	51,066	—	—	2,991	—	—	—
Rental motor/tour vehicle surcharge	43,950	—	—	—	—	—	—
Franchise tax	—	—	—	—	—	—	—
Other	—	6,080	—	1,867	—	—	—
Total Taxes	175,929	7,323	—	4,858	—	—	—
Interest and investment income	10,642	3,331	7,457	3,000	65	97	603
Charges for current services	2,151	16,287	1,948	56,657	130	291	31,400
Intergovernmental	135,815	22,557	2,487	105,588	559,090	388,384	227,076
Rentals	—	3,060	—	—	—	—	36
Fines, forfeitures, and penalties	1,188	154	—	1,300	—	—	—
Licenses and fees	2,162	685	—	813	—	130	727
Revenues from private sources	30	59	—	38,008	—	—	115
Other	3,764	1,339	2,971	233	20,913	294	9,997
Total Revenues	331,681	54,795	14,863	210,457	580,198	389,196	269,954
Expenditures:							
Current:							
General government	—	3,518	—	—	—	—	—
Public safety	—	1,954	—	—	—	—	—
Highways	145,570	—	—	—	—	—	—
Conservation of natural resources	—	41,012	—	122	—	—	—
Health	—	—	5,037	164,637	—	—	—
Welfare	—	—	—	—	579,465	397,439	—
Lower education	—	—	—	—	—	—	273,113
Other education	—	—	—	—	—	11,361	—
Culture and recreation	—	4,167	—	—	—	—	3,070
Urban redevelopment and housing	—	—	—	—	—	—	—
Economic development and assistance	—	2,612	—	—	—	—	—
Other	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	—	—
Total Expenditures	145,570	53,263	5,037	164,759	579,465	408,800	276,183
Excess (Deficiency) of Revenues over Expenditures	186,111	1,532	9,826	45,698	733	(19,604)	(6,229)
Other Financing Sources (Uses):							
Issuance of general obligation and refunding general obligation bonds - par	—	—	—	—	—	—	—
Issuance of general obligation and refunding general obligation bonds - premium	—	—	—	—	—	—	—
Issuance of revenue and refunding revenue bonds - par	—	—	—	—	—	—	—
Issuance of revenue and refunding revenue bonds - premium	—	—	—	—	—	—	—
Payments to refunded bond escrow agent	—	—	—	—	—	—	—
Transfers in	32	3,457	3,697	8,905	2,510	39,470	1,629
Transfers out	(160,860)	(11,603)	—	(14,071)	(5,086)	(120)	(833)
Other	—	—	—	—	—	—	—
Total Other Financing Sources (Uses)	(160,828)	(8,146)	3,697	(5,166)	(2,576)	39,350	796
Net Changes in Fund Balances	25,283	(6,614)	13,523	40,532	(1,843)	19,746	(5,433)
Fund Balances – Beginning	249,224	114,810	287,227	67,098	7,920	17,461	69,696
Fund Balances – Ending	$ 274,507	$ 108,196	$ 300,750	$ 107,630	$ 6,077	$ 37,207	$ 64,263

See accompanying independent auditors' report.

Special Revenue Funds							Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
Economic Development	Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total			
$ —	$ —	$ —	$ —	$ 5,805	$ —	$ 5,805	$ —	$	$ 5,805
97,034	—	—	—	—	—	98,034	—		98,034
—	—	—	—	1,177	—	1,177	—		1,177
—	—	—	—	—	1,577	82,733	—		82,733
—	—	1,745	—	—	—	1,745	—		1,745
—	—	—	—	—	—	54,057	—		54,057
—	—	—	—	—	—	43,950	—		43,950
—	—	2,000	—	—	—	2,000	—		2,000
—	947	—	—	—	—	8,894	—		8,894
97,034	947	3,745	—	6,982	1,577	298,395	—		298,395
2,263	1,181	1,190	1,231	1,660	346	33,066	—		33,066
4,830	15,311	15,182	1	69,536	15,731	229,455	—		229,455
16,089	43,537	—	7,143	24,356	32,048	1,564,170	—		1,564,170
8,635	—	—	3,610	6,343	1,196	22,880	—		22,880
—	588	674	—	197	2,065	6,166	—		6,166
—	—	9,889	—	11,252	430	26,088	—		26,088
—	—	—	—	350	—	38,562	—		38,562
3,709	391	37	2,407	7,116	5,245	58,416	149		58,565
132,560	61,955	30,717	14,392	127,792	58,638	2,277,198	149		2,277,347
—	—	—	—	50,119	6,509	60,146	—		60,146
39	1,936	28,544	—	10,114	38,359	80,946	—		80,946
—	—	—	—	—	—	145,570	—		145,570
—	—	—	—	25	—	41,159	—		41,159
—	—	—	—	—	1,100	170,774	—		170,774
—	—	—	—	10,640	919	988,463	—		988,463
—	—	—	—	6,390	—	279,503	—		279,503
—	—	—	—	—	—	11,361	—		11,361
—	—	—	—	9,219	10,003	26,459	—		26,459
—	—	—	15,452	—	—	15,452	—		15,452
107,018	61,626	—	—	—	—	171,256	—		171,256
—	—	—	—	4,779	5	4,784	—		4,784
—	—	—	—	—	—	—	321,948		321,948
107,057	63,562	28,544	15,452	91,286	56,895	1,995,873	321,948		2,317,821
25,503	(1,607)	2,173	(1,060)	36,506	1,743	281,325	(321,799)		(40,474)
—	—	—	—	—	—	—	741,310		741,310
—	—	—	—	—	—	—	70,845		70,845
—	—	—	—	—	—	—	123,915		123,915
—	—	—	—	—	—	—	15,000		15,000
—	—	—	—	—	—	—	(947,869)		(947,869)
6,025	220	2,476	—	12,815	6,157	87,393	323,312	(108,357)	302,348
(44,577)	(667)	(6,500)	(1,640)	(52,583)	(2,567)	(301,107)	—	108,357	(192,750)
—	—	—	—	—	—	—	(4,602)		(4,602)
(38,552)	(447)	(4,024)	(1,640)	(39,768)	3,590	(213,714)	321,911	—	108,197
(13,049)	(2,054)	(1,851)	(2,700)	(3,262)	5,333	67,611	112		67,723
89,656	39,851	43,349	104,051	123,665	16,260	1,230,268	72		1,230,340
$ 76,607	$ 37,797	$ 41,498	$ 101,351	$ 120,403	$ 21,593	$ 1,297,879	$ 184	$ —	$ 1,298,063

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, 2005

(Amounts in thousands)

	Highways		
	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	$ 75,342	$ 80,913	$ 5,571
Boating	—	—	—
Vehicle registration fee tax	18,680	20,238	1,558
State vehicle weight tax	26,783	30,828	4,045
Rental motor/tour vehicle surcharge tax	38,913	43,950	5,037
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	159,718	175,929	16,211
Non-taxes:			
Interest and investment income	11,900	9,082	(2,818)
Charges for current services	984	2,151	1,167
Intergovernmental	154,402	135,815	(18,587)
Rentals	3	—	(3)
Fines, forfeitures, and penalties	1,145	1,188	43
Licenses and fees	1,796	2,162	366
Revenues from private sources	—	30	30
Other	—	28,930	28,930
Total Non-taxes	170,230	179,358	9,128
Total Revenues	329,948	355,287	25,339
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	214,747	164,233	50,514
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	214,747	164,233	50,514
Excess (Deficiency) of Revenues over Expenditures	$ 115,201	$ 191,054	$ 75,853

See accompanying independent auditors' report.

	Natural Resources			Wastewater		
	Budget	Actual (Budgetary Basis)	Variance – Over (Under)	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
	$ 220	$ 243	$ 23	$ —	$ —	$ —
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	2,686	6,080	3,394	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	1,000	1,000	—	—	—
	—	—	—	—	—	—
	2,906	7,323	4,417	—	—	—
	2,541	2,242	(299)	7,179	7,457	278
	16,242	16,287	45	1,709	1,948	239
	12,557	22,557	10,000	18,903	2,487	(16,416)
	2,070	3,060	990	—	—	—
	31	154	123	—	—	—
	687	685	(2)	—	—	—
	1	59	58	—	—	—
	2,476	5,171	2,695	10,161	15,434	5,273
	36,605	50,215	13,610	37,952	27,326	(10,626)
	39,511	57,538	18,027	37,952	27,326	(10,626)
	3,285	3,019	266	—	—	—
	3,805	1,395	2,410	—	—	—
	—	—	—	—	—	—
	57,990	38,698	19,292	—	—	—
	—	—	—	95,692	8,724	86,968
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	6,187	5,048	1,139	—	—	—
	—	—	—	—	—	—
	1,663	1,174	489	—	—	—
	—	—	—	—	—	—
	72,930	49,334	23,596	95,692	8,724	86,968
	$ (33,419)	$ 8,204	$ 41,623	$ (57,740)	$ 18,602	$ 76,342

(Continued)

STATE OF HAWAII

Nonmajor Special Revenue Funds
Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

	Health		
	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	$ —	$ —	$ —
Boating	—	—	—
Vehicle registration fee tax	—	2,991	2,991
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	1,800	1,867	67
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	1,800	4,858	3,058
Non-taxes:			
Interest and investment income	1,436	2,064	628
Charges for current services	11,377	56,657	45,280
Intergovernmental	95,451	105,588	10,137
Rentals	—	—	—
Fines, forfeitures, and penalties	647	1,300	653
Licenses and fees	690	813	123
Revenues from private sources	20,023	38,008	17,985
Other	79	2,438	2,359
Total Non-taxes	129,703	206,868	77,165
Total Revenues	131,503	211,726	80,223
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	150	150	—
Health	230,855	194,570	36,285
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	231,005	194,720	36,285
Excess (Deficiency) of Revenues over Expenditures	$ (99,502)	$ 17,006	$ 116,508

See accompanying independent auditors' report.

Med-Quest			Human Services		
Budget	Actual (Budgetary Basis)	Variance – Over (Under)	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	162	162
—	406	406	—	16	16
529,144	35,637	(493,507)	229,986	763,037	533,051
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	344	131	(213)
—	—	—	—	—	—
—	23,422	23,422	850	34,038	33,188
529,144	59,465	(469,679)	231,180	797,384	566,204
529,144	59,465	(469,679)	231,180	797,384	566,204
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
575,251	562,670	12,581	318,703	273,606	45,097
—	—	—	—	—	—
—	—	—	11,902	10,343	1,559
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
575,251	562,670	12,581	330,605	283,949	46,656
$ (46,107)	$ (503,205)	$ (457,098)	$ (99,425)	$ 513,435	$ 612,860

(Continued)

STATE OF HAWAII

Nonmajor Special Revenue Funds
Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

	Education Budget	Education Actual (Budgetary Basis)	Education Variance – Over (Under)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	$ —	$ —	$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	—	—	—
Non-taxes:			
Interest and investment income	478	525	47
Charges for current services	22,374	31,400	9,026
Intergovernmental	147,023	227,076	80,053
Rentals	36	36	—
Fines, forfeitures, and penalties	—	—	—
Licenses and fees	588	727	139
Revenues from private sources	515	114	(401)
Other	1,110	7,769	6,659
Total Non-taxes	172,124	267,647	95,523
Total Revenues	172,124	267,647	95,523
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	444,460	270,026	174,434
Other education	—	—	—
Culture and recreation	5,885	3,870	2,015
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	450,345	273,896	176,449
Excess (Deficiency) of Revenues over Expenditures	$ (278,221)	$ (6,249)	$ 271,972

See accompanying independent auditors' report.

	Economic Development			Employment		
	Budget	Actual (Budgetary Basis)	Variance – Over (Under)	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
	$ —	$ —	$ —	$ —	$ —	$ —
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	800	947	147
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	93,812	96,334	2,522	—	—	—
	—	—	—	—	—	—
	93,812	96,334	2,522	800	947	147
	1,379	1,951	572	970	1,025	55
	5,892	4,830	(1,062)	20,000	15,311	(4,689)
	30,353	16,089	(14,264)	57,317	43,537	(13,780)
	13,363	8,635	(4,728)	—	—	—
	—	—	—	70	588	518
	—	—	—	—	—	—
	—	—	—	—	—	—
	6,120	9,734	3,614	6	1,004	998
	57,107	41,239	(15,868)	78,363	61,465	(16,898)
	150,919	137,573	(13,346)	79,163	62,412	(16,751)
	—	—	—	—	—	—
	1,100	39	1,061	2,121	1,934	187
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	174,562	141,481	33,081	111,883	62,798	49,085
	—	—	—	—	—	—
	175,662	141,520	34,142	114,004	64,732	49,272
	$ (24,743)	$ (3,947)	$ 20,796	$ (34,841)	$ (2,320)	$ 32,521

(Continued)

STATE OF HAWAII

Nonmajor Special Revenue Funds
Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

		Regulatory	
	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	$ —	$ —	$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	2,000	2,000	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	1,100	1,745	645
Total Taxes	3,100	3,745	645
Non-taxes:			
Interest and investment income	—	1,034	1,034
Charges for current services	14,536	15,182	646
Intergovernmental	—	—	—
Rentals	—	—	—
Fines, forfeitures, and penalties	636	674	38
Licenses and fees	8,672	9,889	1,217
Revenues from private sources	—	—	—
Other	2,827	2,513	(314)
Total Non-taxes	26,671	29,292	2,621
Total Revenues	29,771	33,037	3,266
Expenditures:			
General government	—	—	—
Public safety	42,280	31,719	10,561
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	42,280	31,719	10,561
Excess (Deficiency) of Revenues over Expenditures	$ (12,509)	$ 1,318	$ 13,827

See accompanying independent auditors' report.

Hawaiian Programs Budget	Hawaiian Programs Actual (Budgetary Basis)	Hawaiian Programs Variance – Over (Under)	Administrative Support Budget	Administrative Support Actual (Budgetary Basis)	Administrative Support Variance – Over (Under)
$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	1,350	5,805	4,455
—	—	—	1,047	1,177	130
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	2,397	6,982	4,585
840	1,075	235	1,194	1,387	193
1	1	—	28,460	69,536	41,076
3,581	7,144	3,563	30,950	24,192	(6,758)
6,788	3,610	(3,178)	8,095	6,343	(1,752)
—	—	—	301	197	(104)
—	—	—	10,708	11,252	544
—	—	—	350	350	—
3,240	4,400	1,160	13,828	574,442	560,614
14,450	16,230	1,780	93,886	687,699	593,813
14,450	16,230	1,780	96,283	694,681	598,398
—	—	—	399,241	373,881	25,360
—	—	—	21,314	9,934	11,380
—	—	—	—	—	—
—	—	—	375	25	350
—	—	—	70	23	47
—	—	—	14,837	9,980	4,857
—	—	—	5,548	5,548	—
—	—	—	—	—	—
—	—	—	12,302	10,316	1,986
23,128	12,117	11,011	—	—	—
—	—	—	48	46	2
—	—	—	265,859	245,645	20,214
23,128	12,117	11,011	719,594	655,398	64,196
$ (8,678)	$ 4,113	$ 12,791	$ (623,311)	$ 39,283	$ 662,594

(Continued)

STATE OF HAWAII

Nonmajor Special Revenue Funds
Combining Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 2005
(Amounts in thousands)

	All Other		
	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	$ —	$ —	$ —
Boating	1,300	1,577	277
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	1,300	1,577	277
Non-taxes:			
Interest and investment income	286	307	21
Charges for current services	12,400	15,731	3,331
Intergovernmental	27,477	32,048	4,571
Rentals	1,115	1,196	81
Fines, forfeitures, and penalties	2,425	2,065	(360)
Licenses and fees	395	430	35
Revenues from private sources	—	—	—
Other	6,334	7,239	905
Total Non-taxes	50,432	59,016	8,584
Total Revenues	51,732	60,593	8,861
Expenditures:			
General government	10,258	8,084	2,174
Public safety	65,962	36,702	29,260
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	800	800	—
Welfare	550	312	238
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	15,908	9,519	6,389
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	93,478	55,417	38,061
Excess (Deficiency) of Revenues over Expenditures	$ (41,746)	$ 5,176	$ 46,922

See accompanying independent auditors' report.

	Total	
Budget	Actual (Budgetary Basis)	Variance – Over (Under)
$ 75,562	$ 81,156	$ 5,594
1,300	1,577	277
18,680	23,229	4,549
26,783	30,828	4,045
38,913	43,950	5,037
800	947	147
1,350	5,805	4,455
1,047	1,177	130
2,686	6,080	3,394
1,800	1,867	67
2,000	2,000	—
93,812	97,334	3,522
1,100	1,745	645
265,833	297,695	31,862
28,203	28,311	108
133,975	229,456	95,481
1,337,144	1,415,207	78,063
31,470	22,880	(8,590)
5,255	6,166	911
23,880	26,089	2,209
20,889	38,561	17,672
47,031	716,534	669,503
1,627,847	2,483,204	855,357
1,893,680	2,780,899	887,219
412,784	384,984	27,800
136,582	81,723	54,859
214,747	164,233	50,514
58,515	38,873	19,642
327,417	204,117	123,300
909,341	846,568	62,773
450,008	275,574	174,434
11,902	10,343	1,559
40,282	28,753	11,529
23,128	12,117	11,011
288,156	205,499	82,657
265,859	245,645	20,214
3,138,721	2,498,429	640,292
$ (1,245,041)	$ 282,470	$ 1,527,511

STATE OF HAWAII

Nonmajor Special Revenue Funds
Reconciliation of the Budgetary to GAAP Basis

June 30, 2005

(Amounts in thousands)

Excess of revenues over expenditures – actual (budgetary basis)	$	282,470
Reserve for encumbrances at year-end*		232,992
Expenditures for liquidation of prior fiscal year encumbrance		(251,092)
Expenditures for unbudgeted programs, principally expenditures for capital project accounts and revolving fund:		(59,548)
Transfers		100,291
Accrued liabilitie:		(198,931)
Accrued revenue:		175,143
Excess of revenues over expenditures – GAAP basis	$	281,325

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

See accompanying independent auditors' report.

STATE OF HAWAII

Fiduciary Funds
Combining Statement of Fiduciary Net Assets – Agency Funds

June 30, 2005
(Amounts in thousands)

	Agency Funds			
ASSETS	Tax Collections	Custodial	Other	Total Agency Funds
Cash and short-term investments	$ 2,461	$ 106,904	$ 38,598	$ 147,963
Receivables:				
Taxes	—	—	8,400	8,400
Accrued interest	—	296	104	400
Total Receivables	—	296	8,504	8,800
Investments:				
Repurchase agreements	—	2,876	988	3,864
U.S. government securities	—	—	11	11
Total Investments	—	2,876	999	3,875
Total Assets	$ 2,461	$ 110,076	$ 48,101	$ 160,638
LIABILITIES				
Vouchers payable	$ 48	$ 965	$ 394	$ 1,407
Due to individuals, businesses, and counties	2,413	109,111	47,707	159,231
Total Liabilities	$ 2,461	$ 110,076	$ 48,101	$ 160,638

See accompanying independent auditors' report.

STATE OF HAWAII

Fiduciary Funds
Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended June 30, 2005
(Amounts in thousands)

	Balance, July 1, 2004	Additions	Deductions	Balance, June 30, 2005
Tax Collections:				
Assets:				
Cash and short-term investments	$ 8,984	$ 5,131,617	$ (5,138,140)	$ 2,461
Total Assets	$ 8,984	$ 5,131,617	$ (5,138,140)	$ 2,461
Liabilities:				
Vouchers payable	$ 7,978	$ 48	$ (7,978)	$ 48
Due to individuals, businesses, and counties	1,006	5,131,617	(5,130,210)	2,413
Total Liabilities	$ 8,984	$ 5,131,665	$ (5,138,188)	$ 2,461
Custodial:				
Assets:				
Cash and short-term investments	$ 134,514	$ 2,942,763	$ (2,970,373)	$ 106,904
Receivables	—	296	—	296
Investments	—	2,876	—	2,876
Total Assets	$ 134,514	$ 2,945,935	$ (2,970,373)	$ 110,076
Liabilities:				
Vouchers payable	$ 222	$ 965	$ (222)	$ 965
Due to individuals, businesses, and counties	134,292	2,943,059	(2,968,240)	109,111
Total Liabilities	$ 134,514	$ 2,944,024	$ (2,968,462)	$ 110,076
Other:				
Assets:				
Cash and short-term investments	$ 34,836	$ 23,156	$ (19,394)	$ 38,598
Receivables	7,600	8,504	(7,600)	8,504
Investments	90	999	(90)	999
Total Assets	$ 42,526	$ 32,659	$ (27,084)	$ 48,101
Liabilities:				
Vouchers payable	$ 97	$ 394	$ (97)	$ 394
Due to individuals, businesses, and counties	42,429	24,060	(18,782)	47,707
Total Liabilities	$ 42,526	$ 24,454	$ (18,879)	$ 48,101
Total – All Agency Funds:				
Assets:				
Cash and short-term investments	$ 178,334	$ 8,097,536	$ (8,127,907)	$ 147,963
Receivables	7,600	8,800	(7,600)	8,800
Investments	90	3,875	(90)	3,875
Total Assets	$ 186,024	$ 8,110,211	$ (8,135,597)	$ 160,638
Liabilities:				
Vouchers payable	$ 8,297	$ 1,407	$ (8,297)	$ 1,407
Due to individuals, businesses, and counties	177,727	8,098,736	(8,117,232)	159,231
Total Liabilities	$ 186,024	$ 8,100,143	$ (8,125,529)	$ 160,638

See accompanying independent auditors' report.

PART III: STATISTICAL SECTION

STATE OF HAWAII

Schedule of Government-Wide Revenues

Last Three Fiscal Years

(Amounts in thousands)

Fiscal Year Ended June 30,	PROGRAM REVENUES: Charges for Current Services	PROGRAM REVENUES: Operating Grants and Contributions	PROGRAM REVENUES: Capital Grants and Contributions	GENERAL REVENUES: Taxes	GENERAL REVENUES: Interest and Investment Income	GENERAL REVENUES: Other	Total
2005	$ 839,832	$ 1,667,492	$ 178,231	$ 4,321,167	$ 92,020	$ (3,144)	$ 7,095,598
2004	766,453	1,687,923	64,254	3,745,883	66,662	(9,658)	6,321,517
2003	729,516	1,586,719	97,543	3,441,398	94,419	9,760	5,959,355

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Government-Wide Expenses by Function

Last Three Fiscal Years
(Amounts in thousands)

	2005	2004	2003
General government	$ 494,174	$ 427,820	$ 475,517
Public safety	248,685	239,932	252,741
Highways	282,339	413,215	439,923
Conservation of natural resources	79,545	69,693	48,918
Health	561,155	520,433	515,492
Welfare	1,615,721	1,547,732	1,418,224
Lower education	1,758,596	1,795,482	1,660,595
Higher educatior	559,379	480,296	537,709
Other education	19,667	23,092	38,161
Culture and recreation	72,920	64,052	71,738
Urban redevelopment and housin	53,077	59,394	42,713
Economic development and assistanc	214,842	214,206	231,605
Interest expense	169,738	179,357	200,864
Airports	273,949	273,546	291,871
Harbors	64,568	54,432	61,448
Unemployment compensatio	112,329	176,135	204,344
Nonmajor proprietary fund	2,883	2,496	789
Total	$ 6,583,567	$ 6,541,313	$ 6,492,652

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Revenues by Source – All Governmental Fund Types

Last Ten Fiscal Years

(Amounts in millions)

Source	For the Fiscal Year Ended June 30, 2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Taxes:										
General excise	$ 2,146	$ 1,900	$ 1,780	$ 1,651	$ 1,642	$ 1,542	$ 1,448	$ 1,417	$ 1,430	$ 1,426
Income	1,485	1,254	1,051	1,082	1,187	1,132	1,110	1,128	1,023	1,046
Inheritance and estate	13	10	16	17	18	23	29	20	22	17
Liquor	44	41	41	39	38	39	39	39	38	38
Public service companies	109	100	114	93	135	119	121	120	114	104
Tobacco	85	79	72	65	55	42	42	36	36	40
Insurance companies' premiums	85	79	74	69	72	69	53	87	75	85
Franchise	37	1	23	5	—	7	10	16	13	16
Transient accommodations	111	102	92	87	108	93	55	26	26	24
Liquid fuel	83	81	77	75	74	71	70	70	71	71
Motor vehicle	98	88	85	78	81	75	39	38	37	37
Hospital and nursing facility(1)	—	—	—	—	—	—	—	3	12	10
Other	21	18	13	13	13	14	34	32	34	33
Total Taxes	4,317	3,753	3,438	3,274	3,423	3,226	3,050	3,032	2,931	2,947
Non-taxes:										
Interest and investment income	58	42	61	71	150	69	91	89	82	92
Charges for current services	299	229	215	165	236	240	220	233	207	204
Intergovernmental	1,575	1,528	1,362	1,258	1,120	1,070	1,091	1,080	1,170	1,128
Rentals	29	31	28	31	29	23	22	24	22	29
Fines, forfeitures, and penalties	27	30	24	24	23	25	23	23	21	18
Licenses and fees	27	26	27	24	23	22	20	19	16	16
Other	143	151	215	253	146	165	134	90	118	116
Total Revenues – All Governmental Fund Types	$ 6,475	$ 5,790	$ 5,370	$ 5,100	$ 5,150	$ 4,840	$ 4,651	$ 4,590	$ 4,567	$ 4,550

(1) Effective July 1, 1993, the hospital and nursing facility tax levied was authorized by Act 315, SLH of 1993.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Expenditures by Function – All Governmental Fund Types

Last Ten Fiscal Years

(Amounts in millions)

Function	For the Fiscal Year Ended June 30, 2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
General government	$ 508	$ 451	$ 429	474	$ 483	$ 442	$ 489	$ 413	$ 404	$ 404
Public safety	291	265	257	240	201	203	199	185	165	164
Highways	302	223	255	236	131	115	111	111	115	94
Conservation of natural resources	74	65	66	57	51	41	45	37	36	33
Health	565	519	513	500	431	399	386	329	311	279
Welfare	1,615	1,545	1,418	1,334	1,248	1,226	1,222	1,210	1,278	1,236
Education	2,377	2,262	2,321	2,134	1,050	1,035	1,007	949	888	891
Culture and recreation	74	67	71	68	57	56	52	52	55	57
Urban redevelopment and housing	53	55	17	12	10	10	11	15	21	26
Economic development and assistance	214	215	231	267	200	192	166	155	163	176
Social security and pension contributions	—	—	—	—	91	85	159	222	226	222
Intergovernmental	—	—	—	—	—	—	—	—	3	3
Debt service	322	302	394	363	402	384	390	406	426	416
Capital outlay	—	—	—	—	335	376	376	373	611	488
Other	5	3	—	—	13	9	28	28	20	16
Total Expenditures – All Governmental Fund Types	$ 6,400	$ 5,972	$ 5,972	$ 5,685	$ 4,703	$ 4,573	$ 4,641	$ 4,485	$ 4,722	$ 4,505

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Ratio of Net General Obligation Bonded Debt Per Capita

Last Ten Fiscal Years

(Amounts in thousands except ratio data)

Fiscal Year	Population(1)	General Obligation Bonded Debt(2)(3)	Less Debt Service Monies Available(2)	Net General Obligation Bonded Debt	Net General Obligation Bonded Debt Per Capita
2005	1,278	$ 4,256,633	$ 184	$ 4,256,449	$ 3,331
2004	1,263	3,954,192	72	3,954,120	3,128
2003	1,249	3,634,738	148	3,634,590	2,910
2002	1,241	3,568,001	79	3,567,922	2,884
2001	1,225	3,225,635	110	3,225,525	2,629
2000	1,212	3,278,479	258	3,278,221	2,705
1999	1,210	3,166,880	223	3,166,657	2,670
1998	1,215	3,363,517	338	3,363,179	2,824
1997	1,212	3,075,862	435	3,075,427	2,580
1996	1,204	2,841,069	240	2,840,829	2,399

(1) Source: Hawaii State Department of Business, Economic Development and Tourism.
(2) Source: Hawaii State Department of Accounting and General Services, Accounting Divisio
(3) Excludes Enterprise Funds and Component Unit – UH general obligation bond

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Ratio of Annual Debt Service for General Obligation Bonded Debt to Total General Expenditures

Last Ten Fiscal Years

(Amounts in thousands except ratio data)

Fiscal Year	Principal	Interest and Fees	Total Debt Service	Total General Expenditures	Ratio of Debt Service to General Expenditures
2005	$ 128,378	$ 193,570	$ 321,948	$ 6,399,696	5.03%
2004	139,227	162,288	301,515	5,972,173	5.05
2003	242,378	151,945	394,323	5,971,576	6.60
2002	233,117	129,483	362,600	5,684,875	6.38
2001	210,518	190,993	401,511	4,703,420	8.54
2000	193,075	190,497	383,572	4,572,956	8.39
1999	202,836	186,762	389,598	4,641,159	8.39
1998	231,756	174,577	406,333	4,485,334	9.06
1997	268,683	156,890	425,573	4,721,851	9.01
1996	260,156	155,888	416,044	4,504,746	9.24

See accompanying independent auditors' report.

STATE OF HAWAII
Schedule of Revenue Bond Coverage*

Last Ten Fiscal Years
(Amounts in thousands except coverage data)

Airports

Fiscal Year	Gross Revenues(1)	Operating Expenses(2)	Net Revenue Available for Debt Service	Debt Service Requirements Principal(3)	Debt Service Requirements Interest(4)	Debt Service Requirements Total	Coverage(5)
2005	$ 245,464	$ 150,332	$ 95,132	$ 25,250	$ 21,516	$ 46,766	203%
2004	234,287	151,717	82,570	22,365	18,814	41,179	201
2003	265,714	95,132	98,603	19,550	15,536	35,086	281
2002	218,359	141,409	76,950	27,185	6,275	33,460	230
2001	334,511	123,973	210,538	48,810	48,020	96,830	217
2000	332,264	135,125	197,139	52,120	53,046	105,166	187
1999	285,353	127,136	158,217	41,705	35,349	77,054	205
1998	294,078	125,007	169,071	37,100	39,416	76,516	221
1997	317,943	126,612	191,331	37,595	59,440	97,035	197
1996	314,647	120,632	194,015	42,578	59,245	101,823	191

Harbors

Fiscal Year	Gross Revenues(6)	Operating Expenses(7)	Net Revenue Available for Debt Service	Debt Service Requirements During the Fiscal Year	Additional Debt Service Requirements	Total	Coverage(8)
2005	$ 79,319	$ 36,053	$ 43,266	$ 19,224	$ —	$ 19,224	225%
2004	78,433	26,809	51,624	21,317	—	21,317	242
2003	77,571	35,214	42,357	19,652	—	19,652	216
2002	70,873	20,992	49,881	20,093	—	20,093	248
2001	75,353	26,525	48,828	30,590	—	30,590	160
2000	68,931	21,917	47,014	31,347	—	31,347	150
1999	64,729	22,891	41,838	30,152	—	30,152	139
1998	65,659	24,348	41,311	16,815	—	16,815	246
1997	55,496	20,824	34,672	16,444	—	16,444	211
1996	52,791	20,568	32,223	15,686	—	15,686	205

(1) Total operating revenues plus interest income and federal operating grants, exclusive of interest earned on investment in financing leases.
(2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for majo maintenance, renewal, and replacement plus amounts required to be paid into the General Fund for general obligation bond requirement
(3) On January 5, 2005, Airports disbursed $69,300 from the Airport Revenue Fund to the paying agent to redeem the outstanding balanc of the Airports System Revenue Bonds, Refunding Series of 2003 in its entirety
(4) For fiscal 2005, Airports deposited $20,000 of available funds into the Airport Revenue Fund for credit to the interest account in th current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2005 t the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawai Airports System Revenue Bonds."
(5) Airports revenue bond indentures require a minimum debt service coverage percentage of 125%
(6) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facilit construction fund and revenue fund investments
(7) Total operating expenses other than depreciation less State of Hawaii surcharge for central service expense
(8) Harbors revenue bond indentures require a minimum debt service coverage percentage of 125%

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

* Information for the revenue bonds issued by the Component Units – UH and Enterprise Funds is not available.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Legal Debt Margin

June 30, 2005
(Amounts in thousands)

Average General Fund revenues of the three preceding fiscal years ended June 30, 2003, 2004, and 2005	$	4,043,868
Constitutional debt limit percentage		18.50%
Constitutional debt limit for total principal and interest payable in a current or future year		748,116
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year endin June 30, 2009)		(516,641)
Legal debt margin	$	231,475

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

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Unreserved – Undesignated Fund Balance – Statutory (Cash) Basis to GAAP Basis – General Fund

For the Fiscal Year Ended June 30, 2005
(Amounts in thousands)

Revenues	$	4,486,359
Expenditures		4,162,689
Excess of Revenues over Expenditures		323,670
Other Changes in Unreserved – Undesignated Fund Balance:		
Add continuing appropriations, July 1, 2004		219,830
Deduct continuing appropriations, June 30, 2005		241,698
		(21,868)
Excess of Revenues over Expenditures and Other Changes in Unreserved – Undesignated Fund Balance		301,802
Unreserved – Undesignated Fund Balance, July 1, 2004, on a statutory (cash) basis		184,582
Unreserved – Undesignated Fund Balance, June 30, 2005, on a statutory (cash) basis		486,384
Adjustments from statutory (cash) basis to GAAP basis:		
Accrued revenues		384,100
Accrued expenditures		(99,415)
Tax refund liability		(56,000)
Unreserved – Undesignated Fund Balance, June 30, 2005, on a GAAP basis	$	715,069

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Demographic Statistics

Last Ten Years
(Population amounts expressed in thousands)

Year	Population(1)	Per Capita Income(2)	School Enrollment(3)	Unemployment Rate(4)
2005	1,278	$ NA	NA	2.78%
2004	1,263	NA	183,185	3.40
2003	1,249	30,589	183,609	3.90
2002	1,241	29,628	183,829	4.40
2001	1,225	28,603	184,546	4.40
2000	1,212	28,417	NA	4.50
1999	1,210	26,973	185,860	5.60
1998	1,215	26,132	188,069	6.20
1997	1,212	25,587	189,887	6.40
1996	1,204	25,024	186,581	6.40

(1) Source: Hawaii State Department of Business, Economic Development and Tourism.
(2) Source: U.S. Department of Commerce, Bureau of Economic Analysis printouts.
(3) Source: Hawaii State Department of Education records. Data represents September enrollment for public schools.
(4) Source: Hawaii State Department of Labor and Industrial Relations records. 2005 is based on data for the first nine months.

N/A Not available for 2005, 2004, and 2000.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Bank Deposits

Last Ten Calendar Years
(Amounts in millions)

Calendar Year		Bank Deposits
2005		NA
2004	$	18,568
2003		17,442
2002		16,708
2001		15,763
2000		16,741
1999		16,107
1998		16,038
1997		14,541
1996		14,033

Source: Hawaii State Department of Commerce and Consumer Affairs. Data represents deposits in state chartered banks.

N/A Not available for the calendar year 2005.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Ten Largest Private Employers

June 30, 2005

Company	Industry
Aloha Airgroup, Inc.	Air transportation
Banc West Corporation	Financial services
Hawaii Pacific Health	Health care services
Hawaiian Airlines, Inc.	Air transportation
Hawaiian Electric Industries, Inc.	Energy and financial services
Kaiser Permanente Medical Care Program	Health care services
Kyo-ya Company, Ltd.	Hotel, food, retail sales, and insurance
Marriott International	Hotels and resorts
McDonald's Restaurants of Hawaii	Quick-service restaurants
The Queen's Health System	Health care services
Starwood Hotels and Resorts Hawaii	Hotels and resorts

Listed alphabetically.

Source: Hawaii Business, August 2005.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Miscellaneous Statistics

June 30, 2005

Date of statehood	1959
Form of governmen	Legislative-Executive-Judicia
Number of state employees***	71,500
Area in square miles**	6,423
Miles of streets and highways***	4,316
Recreation and culture:	
Number of parks and historic sites***	69
Total acreage***	27,116
Number of libraries***	51
Public safety:	
Number of fire personnel***	1,896
Number of police personnel***	3,442
Sewage (millions of gallons)*	50,969
Water system:	
Number of services***	254,036
Consumption (millions of gallons)**	78,345
Education:	
Number of public schools*	246
Number of teachers***	11,010
Hospitals:	
Number of hospitals***	68
Number of beds***	7,685

*** Represents 2004 data
** Represents 2000 data
* Represents 1995 data

Source: Internet (2005) revised as of August 31, 2005, except for public safety personnel and number of public schools. Public safety personnel reflects data from the counties comprehensive annual financial reports, and number of public schools reflects data from Hawaii State Department of Education records

See accompanying independent auditors' report.

APPENDIX C

EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII

ARTICLE VII

TAXATION AND FINANCE

LAPSING OF APPROPRIATIONS

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

DEFINITIONS; ISSUANCE OF INDEBTEDNESS

Section 12. For the purposes of this article:

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

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

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

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

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

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

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

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

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

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

[Subsections 8 and 9 are omitted.]

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

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

1. Manufacturing, processing or industrial enterprises;
2. Utilities serving the general public;
3. Health care facilities provided to the general public by not-for-profit corporations;
4. Early childhood education and care facilities provided to the general public by not-for-profit corporations;
5. Low and moderate income government housing programs; or
6. Not-for-profit private nonsectarian and sectarian elementary schools, secondary schools, colleges and universities,

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

The legislature, by a two-thirds vote of the members to which each house is entitled, may enact enabling legislation for the issuance of special purpose revenue bonds separately for each special purpose entity, and, by a two-thirds vote of the members to which each house is entitled and by separate legislative bill, may authorize the State to issue special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the legislature; and provided further that the State may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. The legislature may enact enabling legislation to authorize political subdivisions to issue special purpose revenue bonds. If so authorized, a political subdivision by a two-thirds vote of the members to which its governing body is entitled and by separate ordinance may authorize the issuance of special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the governing body of the political subdivision; and provided further that the political subdivision may combine into a single issue of special purpose revenue bonds two or more proposed issues of special purpose revenue bonds, separately authorized as aforesaid, in the total amount of not exceeding the aggregate of the proposed separate issues of special purpose revenue bonds. No special purpose revenue bonds shall be secured directly or indirectly by the general credit of the issuer or by any revenues or taxes of the issuer other than receipts derived from payments by a person under contract or from any security for such contract or special purpose revenue bonds and no moneys other than such receipts shall be applied to the payment thereof. The governor shall provide the legislature in November of each year with a report on the cumulative amount of all special purpose revenue bonds authorized and issued, and such other information as may be necessary.

DEBT LIMIT; EXCLUSIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII

as of February 1, 2006
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
August 1, 1972	$ 5,125,000, Series X, callable	4.000%	August 1,	2006	@	300,000.00	
		4.000%	August 1,	2007	@	315,000.00	615,000.00
December 6, 1988	$ 65,000,954.43, Series BL, non-callable	7.681%	December 1,	2006	@	4,065,206.24	
	(compound interest bonds)	7.681%	December 1,	2007	@	4,060,531.65	
		7.681%	December 1,	2008	@	4,065,039.05	12,190,776.94
November 28, 1989	$ 80,005,159.73, Series BQ, callable	7.100%	December 1,	2006	@	4,444,323.52	
	(certain maturities bear compound	7.150%	December 1,	2007	@	4,444,776.00	
	interest, non-callable)	7.150%	December 1,	2008	@	4,444,432.49	
		7.150%	December 1,	2009	@	4,444,540.00	17,778,072.01
March 1, 1992	$ 100,000,000, Series BW, noncallable	6.300%	March 1,	2006	@	5,555,000.00	
		6.400%	March 1,	2007 - 2008	@	5,555,000.00	
		6.375%	March 1,	2011	@	5,460.000.00	
		6.250%	March 1,	2012	@	5,555,000.00	27,680,000.00
October 1, 1992	$ 200,000,000 Series BZ, noncallable	5.900%	October 1,	2006	@	12,500,000.00	
		6.000%	October 1,	2007 - 2012	@	12,500,000.00	87,500,000.00
January 1, 1993	$ 90,000,000 Series CA, noncallable	5.750%	January 1,	2007 - 2008	@	5,000,000.00	
		6.000%	January 1,	2009	@	5,000,000.00	
		5.750%	January 1,	2010 - 2011	@	5,000,000.00	
		5.500%	January 1,	2012	@	5,000,000.00	
		8.000%	January 1,	2013	@	5,000,000.00	35,000,000.00
January 1, 1993	$ 107,845,000 Series CB, noncallable (refunding)	5.750%	January 1,	2007 - 2008	@	8,295,000.00	16,590,000.00
February 1, 1993	$ 334,860,000 Series CC, callable (refunding)	5.125%	February 1,	2007 - 2009	@	23,915,000.00	71,745,000.00
July 1, 1993	$ 21,500,000 Series CG, callable (refunding)	5.000%	July 1,	2006	@	1,320,000.00	1,320,000.00
November 1, 1993	$ 250,000,000, Series CH, noncallable	6.000%	November 1,	2006 - 2009	@	13,890,000.00	
		6.000%	November 1,	2010	@	13,885,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due				Outstanding Principal
		4.750%	November 1,	2011 - 2013	@	13,885,000.00	111,100,000.00
November 1, 1993	$ 316,915,000, Series CI, noncallable	4.600%	November 1,	2006	@	21,125,000.00	
	(refunding)	4.700%	November 1,	2007	@	21,125,000.00	
		4.750%	November 1,	2008 - 2009	@	21,125,000.00	
		4.900%	November 1,	2010	@	21,125,000.00	105,625,000.00
March 1, 1996	$ 100,000,000, Series CL, callable	5.100%	March 1,	2006	@	5,555,000.00	
		6.000%	March 1,	2007 - 2009	@	5,555,000.00	
		6.000%	March 1,	2011	@	5,555,000.00	27,775,000.00
December 1, 1996	$ 150,000,000, Series CM, noncallable	6.000%	December 1,	2006 - 2010	@	8,335,000.00	
		6.000%	December 1,	2011 - 2012	@	8,330,000.00	
		6.500%	December 1,	2013 - 2016	@	8,330,000.00	91,655,000.00
March 1, 1997	$ 350,000,000, Series CN, callable	6.250%	March 1,	2006	@	17,410,000.00	
		6.250%	March 1,	2007	@	18,500,000.00	
		6.250%	March 1,	2008	@	19,655,000.00	
		6.000%	March 1,	2009	@	20,045,000.00	75,610,000.00
March 1, 1997	$ 231,755,000, Series CO, noncallable	6.000%	March 1,	2006	@	9,830,000.00	
	(refunding)	6.000%	September 1,	2006	@	10,125,000.00	
		6.000%	March 1,	2007	@	10,425,000.00	
		6.000%	September 1,	2007	@	10,740,000.00	
		6.000%	March 1,	2008	@	11,060,000.00	
		6.000%	September 1,	2008	@	11,395,000.00	
		6.000%	March 1,	2009	@	11,735,000.00	
		6.000%	September 1,	2009	@	12,090,000.00	
		6.000%	March 1,	2010	@	12,450,000.00	
		6.000%	September 1,	2010	@	12,825,000.00	
		6.000%	March 1,	2011	@	13,210,000.00	125,885,000.00
October 1, 1997	$ 200,000,000, Series CP, callable	5.500%	October 1,	2006	@	9,355,000.00	
		5.500%	October 1,	2007	@	9,885,000.00	
		5.500%	October 1,	2008	@	10,445,000.00	
		5.500%	October 1,	2009	@	11,035,000.00	
		5.500%	October 1,	2010	@	11,660,000.00	
		5.000%	October 1,	2011	@	3,525,000.00	
		5.000%	October 1,	2012	@	3,705,000.00	
		5.000%	October 1,	2013	@	3,895,000.00	
		5.000%	October 1,	2014	@	4,095,000.00	
		5.000%	October 1,	2015	@	4,305,000.00	
		5.000%	October 1,	2016	@	4,525,000.00	
		5.000%	October 1,	2017	@	4,755,000.00	81,185,000.00
April 1, 1998	$ 300,000,000, Series CR, callable	5.500%	April 1,	2006	@	14,380,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due				Outstanding Principal
		5.500%	April 1,	2007	@	15,170,000.00	
		5.750%	April 1,	2008	@	7,955,000.00	37,505,000.00
April 1, 1998	$ 336,620,000, Series CS, noncallable	5.250%	April 1,	2006	@	47,895,000.00	
	(refunding)	5.000%	April 1,	2007	@	50,405,000.00	
		5.000%	April 1,	2008	@	52,930,000.00	
		5.000%	April 1,	2009	@	55,575,000.00	206,805,000.00
September 15, 1999	$ 300,000,000, Series CT, callable	5.500%	September 1,	2006	@	12,870,000.00	
		5.250%	September 1,	2007	@	13,580,000.00	
		5.250%	September 1,	2008	@	14,310,000.00	
		5.250%	September 1,	2009	@	15,080,000.00	
		5.625%	September 1,	2012	@	5,315,000.00	61,155,000.00
October 15, 2000	$ 150,000,000, Series CU, callable	4.625%	October 1,	2006	@	6,080,000.00	
		5.750%	October 1,	2007	@	4,500,000.00	
		4.700%	October 1,	2007	@	1,895,000.00	
		5.750%	October 1,	2008	@	4,565,000.00	
		4.750%	October 1,	2008	@	2,190,000.00	
		5.750%	October 1,	2009	@	6,110,000.00	
		4.875%	October 1,	2009	@	1,025,000.00	
		5.750%	October 1,	2010	@	6,980,000.00	
		4.900%	October 1,	2010	@	575,000.00	
		5.750%	October 1,	2011	@	6,795,000.00	
		5.000%	October 1,	2011	@	825,000.00	
		5.750%	October 1,	2012	@	5,985,000.00	
		5.100%	October 1,	2012	@	2,470,000.00	49,995,000.00
August 1, 2001	$ 300,000,000, Series CV, callable	5.000%	August 1,	2006	@	11,680,000.00	
		5.500%	August 1,	2007	@	12,310,000.00	
		5.500%	August 1,	2008	@	13,005,000.00	
		5.500%	August 1,	2009	@	13,745,000.00	
		5.500%	August 1,	2010	@	14,520,000.00	
		5.500%	August 1,	2011	@	15,340,000.00	
		5.375%	August 1,	2012	@	16,200,000.00	
		5.375%	August 1,	2013	@	17,095,000.00	
		5.375%	August 1,	2014	@	18,035,000.00	
		4.800%	August 1,	2016	@	705,000.00	
		5.375%	August 1,	2016	@	6,860,000.00	
		5.125%	August 1,	2017	@	7,495,000.00	
		5.375%	August 1,	2018	@	22,305,000.00	
		4.900%	August 1,	2019	@	2,385,000.00	
		5.375%	August 1,	2019	@	21,145,000.00	
		5.000%	August 1,	2020	@	24,775,000.00	
		5.000%	August 1,	2121	@	5,590,000.00	
		5.250%	August 1,	2121	@	20,485,000.00	243,675,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due				Outstanding Principal
August 1, 2001	$ 156,750,000, Series CW, callable	3.600%	August 1,	2006	@	11,575,000.00	
	(refunding)	3.600%	August 1,	2007	@	7,345,000.00	
		3.800%	August 1,	2007	@	4,705,000.00	
		5.500%	August 1,	2008	@	6,505,000.00	
		4.000%	August 1,	2008	@	6,110,000.00	
		5.500%	August 1,	2009	@	2,275,000.00	
		4.100%	August 1,	2009	@	10,990,000.00	
		5.500%	August 1,	2010	@	2,420,000.00	
		4.200%	August 1,	2010	@	11,560,000.00	
		4.300%	August 1,	2011	@	3,365,000.00	
		5.500%	August 1,	2011	@	11,370,000.00	
		4.400%	August 1,	2012	@	1,045,000.00	
		5.375%	August 1,	2012	@	14,490,000.00	
		4.500%	August 1,	2013	@	1,680,000.00	
		5.375%	August 1,	2013	@	14,700,000.00	
		4.600%	August 1,	2014	@	225,000.00	
		5.375%	August 1,	2014	@	17,050,000.00	
		4.700%	August 1,	2015	@	720,000.00	
		5.375%	August 1,	2015	@	12,475,000.00	140,605,000.00
February 1, 2002	$ 250,000,000, Series CX, callable	3.600%	February 1,	2007	@	10,850,000.00	
		3.800%	February 1,	2008	@	11,240,000.00	
		4.000%	February 1,	2009	@	11,665,000.00	
		4.125%	February 1,	2010	@	6,840,000.00	
		5.250%	February 1,	2010	@	5,290,000.00	
		4.250%	February 1,	2011	@	6,095,000.00	
		5.250%	February 1,	2011	@	6,595,000.00	
		4.300%	February 1,	2012	@	6,135,000.00	
		5.250%	February 1,	2012	@	7,165,000.00	
		4.500%	February 1,	2013	@	1,525,000.00	
		5.500%	February 1,	2013	@	12,415,000.00	
		4.600%	February 1,	2014	@	2,140,000.00	
		5.500%	February 1,	2014	@	140,000.00	
		4.625%	February 1,	2015	@	480,000.00	
		5.500%	February 1,	2015	@	790,000.00	
		4.750%	February 1,	2016	@	410,000.00	
		5.500%	February 1,	2016	@	9,055,000.00	
		4.800%	February 1,	2017	@	725,000.00	
		5.500%	February 1,	2017	@	9,255,000.00	
		5.000%	February 1,	2018	@	10,520,000.00	
		5.000%	February 1,	2019	@	19,065,000.00	
		5.100%	February 1,	2020	@	20,015,000.00	
		5.500%	February 1,	2021	@	21,040,000.00	
		5.125%	February 1,	2022	@	22,195,000.00	201,645,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due				Outstanding Principal
February 1, 2002	$ 319,290,000, Series CY, noncallable	3.600%	February 1,	2007	@	11,000,000.00	
	(refunding)	5.250%	February 1,	2007	@	17,785,000.00	
		5.250%	February 1,	2008	@	30,115,000.00	
		4.000%	February 1,	2009	@	10,695,000.00	
		5.250%	February 1,	2009	@	21,000,000.00	
		5.250%	February 1,	2010	@	31,675,000.00	
		5.500%	February 1,	2011	@	34,970,000.00	
		5.500%	February 1,	2012	@	36,895,000.00	
		5.750%	February 1,	2013	@	38,920,000.00	
		5.750%	February 1,	2014	@	41,160,000.00	
		5.750%	February 1,	2015	@	43,525,000.00	317,740,000.00
November 26, 2002	$ 300,000,000, Series CZ, callable	2.650%	July 1,	2007	@	10,015,000.00	
		4.000%	July 1,	2007	@	2,905,000.00	
		2.900%	July 1,	2008	@	7,895,000.00	
		5.000%	July 1,	2008	@	5,470,000.00	
		3.125%	July 1,	2009	@	4,315,000.00	
		3.250%	July 1,	2009	@	9,520,000.00	
		3.300%	July 1,	2010	@	3,340,000.00	
		5.250%	July 1,	2010	@	11,065,000.00	
		3.500%	July 1,	2011	@	1,175,000.00	
		5.250%	July 1,	2011	@	13,965,000.00	
		3.600%	July 1,	2012	@	3,510,000.00	
		5.250%	July 1,	2012	@	12,405,000.00	
		3.750%	July 1,	2013	@	1,945,000.00	
		5.500%	July 1,	2013	@	14,800,000.00	
		3.900%	July 1,	2014	@	1,360,000.00	
		5.500%	July 1,	2014	@	16,305,000.00	
		4.000%	July 1,	2015	@	2,305,000.00	
		5.250%	July 1,	2015	@	16,310,000.00	
		4.150%	July 1,	2016	@	210,000.00	
		5.250%	July 1,	2016	@	16,805,000.00	
		4.250%	July 1,	2017	@	375,000.00	
		5.250%	July 1,	2017	@	20,280,000.00	
		4.300%	July 1,	2018	@	60,000.00	
		5.250%	July 1,	2018	@	21,705,000.00	
		4.500%	July 1,	2020	@	1,160,000.00	
		4.800%	July 1,	2022	@	8,370,000.00	17,980,000.00
September 16, 2003	$ $250,000,000 Series DA, callable	2.800%	September 1,	2008	@	9,970,000.00	
		3.125%	September 1,	2009	@	10,270,000.00	
		3.500%	September 1,	2010	@	3,570,000.00	
		4.000%	September 1,	2010	@	7,060,000.00	
		3.750%	September 1,	2011	@	7,570,000.00	
		4.000%	September 1,	2011	@	3,475,000.00	
		3.900%	September 1,	2012	@	830,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due				Outstanding Principal
		4.000%	September 1,	2012	@	10,110,000.00	
		4.250%	September 1,	2012	@	550,000.00	
		4.000%	September 1,	2013	@	11,955,000.00	
		4.200%	September 1,	2014	@	4,355,000.00	
		5.250%	September 1,	2014	@	8,145,000.00	
		4.300%	September 1,	2015	@	1,475,000.00	
		5.250%	September 1,	2015	@	11,670,000.00	
		4.400%	September 1,	2016	@	10,000.00	
		5.250%	September 1,	2016	@	13,835,000.00	
		4.500%	September 1,	2017	@	350,000.00	
		5.250%	September 1,	2017	@	7,125,000.00	
		4.600%	September 1,	2018	@	1,240,000.00	
		5.250%	September 1,	2018	@	14,135,000.00	
		5.250%	September 1,	2019	@	16,195,000.00	
		4.750%	September 1,	2020	@	35,000.00	
		5.250%	September 1,	2020	@	17,035,000.00	
		4.800%	September 1,	2021	@	500,000.00	
		5.250%	September 1,	2021	@	17,490,000.00	
		4.900%	September 1,	2022	@	250,000.00	
		5.250%	September 1,	2022	@	18,710,000.00	
		4.900%	September 1,	2023	@	4,675,000.00	
		5.250%	September 1,	2023	@	15,295,000.00	217,885,000.00
September 16, 2003	$ 188,650,000, Series DB, callable	2.800%	September 1,	2008	@	6,065,000.00	
		4.000%	September 1,	2008	@	11,100,000.00	
		4.000%	September 1,	2009	@	6,515,000.00	
		5.000%	September 1,	2009	@	11,370,000.00	
		5.000%	September 1,	2010	@	18,770,000.00	
		5.000%	September 1,	2011	@	19,730,000.00	
		5.000%	September 1,	2012	@	20,740,000.00	
		4.250%	September 1,	2013	@	3,380,000.00	
		5.250%	September 1,	2013	@	18,435,000.00	
		4.000%	September 1,	2014	@	5,000,000.00	
		5.250%	September 1,	2014	@	17,945,000.00	
		5.250%	September 1,	2015	@	24,150,000.00	
		5.250%	September 1,	2016	@	25,450,000.00	188,650,000.00
May 13, 2004	$ 225,000,000, Series DD, callable	3.500%	May 1,	2011	@	2,140,000.00	
		3.700%	May 1,	2012	@	1,195,000.00	
		5.000%	May 1,	2012	@	9,825,000.00	
		3.800%	May 1,	2013	@	1,090,000.00	
		5.000%	May 1,	2013	@	10,465,000.00	
		4.000%	May 1,	2014	@	4,060,000.00	
		5.250%	May 1,	2014	@	8,055,000.00	
		4.125%	May 1,	2015	@	2,295,000.00	
		5.250%	May 1,	2015	@	10,410,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due				Outstanding Principal
		4.200%	May 1,	2016	@	790,000.00	
		5.000%	May 1,	2016	@	7,725,000.000	
		4.250%	May 1,	2017	@	575,000.00	
		5.000%	May 1,	2017	@	13,430,000.00	
		4.300%	May 1,	2018	@	460,000.00	
		5.000%	May 1,	2018	@	5,230,000.00	
		4.400%	May 1,	2019	@	610,000.00	
		5.000%	May 1,	2019	@	14,825,000.00	
		4.500%	May 1,	2020	@	250,000.00	
		5.000%	May 1,	2020	@	15,950,000.00	
		5.000%	May 1,	2021	@	17,010,000.00	
		5.250%	May 1,	2022	@	17,860,000.00	
		4.750%	May 1,	2023	@	1,150,000.00	
		5.250%	May 1,	2023	@	17,645,000.00	
		4.800%	May 1,	2024	@	2,045,000.00	
		5.250%	May 1,	2024	@	17,735,000.00	182,825,000.00
November 10, 2004	$ 225,000,000 Series DE, callable	5.000%	October 1,	2009	@	2,960,000.00	
		2.625%	October 1,	2009	@	6,815,000.00	
		5.000%	October 1,	2010	@	5,090,000.00	
		3.000%	October 1,	2010	@	5,050,000.00	
		5.000%	October 1,	2011	@	5,715,000.00	
		3.000%	October 1,	2011	@	4,845,000.00	
		5.000%	October 1,	2012	@	8,250,000.00	
		3.250%	October 1,	2012	@	2,775,000.00	
		5.000%	October 1,	2013	@	10,610,000.00	
		3.375%	October 1,	2013	@	950,000.00	
		5.000%	October 1,	2014	@	7,420,000.00	
		3.500%	October 1,	2014	@	4,685,000.00	
		5.000%	October 1,	2015	@	11,665,000.00	
		3.600%	October 1,	2015	@	1,020,000.00	
		5.000%	October 1,	2016	@	11,600,000.00	
		3.625%	October 1,	2016	@	1,715,000.00	
		5.000%	October 1,	2017	@	13,855,000.00	
		3.750%	October 1,	2017	@	130,000.00	
		5.000%	October 1,	2018	@	14,380,000.00	
		3.800%	October 1,	2018	@	320,000.00	
		5.000%	October 1,	2019	@	13,955,000.00	
		3.875%	October 1,	2019	@	1,490,000.00	
		5.000%	October 1,	2020	@	15,435,000.00	
		4.000%	October 1,	2020	@	785,000.00	
		5.000%	October 1,	2021	@	16,675,000.00	
		4.000%	October 1,	2021	@	375,000.00	
		5.000%	October 1,	2022	@	14,360,000.00	
		4.125%	October 1,	2022	@	3,545,000.00	
		5.000%	October 1,	2023	@	17,270,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		4.200%	October 1, 2023	@	1,530,000.00	
		5.000%	October 1, 2024	@	12,565,000.00	
		4.300%	October 1, 2024	@	7,165,000.00	225,000,000.00
June 15, 2005	$ 225,000,000 Series DF, callable	3.000%	July 1, 2009	@	9,060,000.00	
		3.125%	July 1, 2010	@	9,340,000.00	
		3.250%	July 1, 2011	@	9,645,000.00	
		3.375%	July 1, 2012	@	2,165,000.00	
		5.000%	July 1, 2012	@	7,865,000.00	
		3.500%	July 1, 2013	@	1,855,000.00	
		5.000%	July 1, 2013	@	8,660,000.00	
		3.600%	July 1, 2014	@	955,000.00	
		5.000%	July 1, 2014	@	10,075,000.00	
		3.625%	July 1, 2015	@	1,800,000.00	
		5.000%	July 1, 2015	@	9,780,000.00	
		3.750%	July 1, 2016	@	60,000.00	
		5.000%	July 1, 2016	@	12,100,000.00	
		3.800%	July 1, 2017	@	25,000.00	
		5.000%	July 1, 2017	@	12,755,000.00	
		3.800%	July 1, 2018	@	25,000.00	
		5.000%	July 1, 2018	@	13,410,000.00	
		3.875%	July 1, 2019	@	70,000.00	
		5.000%	July 1, 2019	@	14,055,000.00	
		5.000%	July 1, 2020	@	14,850,000.00	
		3.875%	July 1, 2021	@	185,000.00	
		5.000%	July 1, 2021	@	15,425,000.00	
		4.000%	July 1, 2022	@	125,000.00	
		5.000%	July 1, 2022	@	16,285,000.00	
		5.000%	July 1, 2023	@	17,250,000.00	
		4.000%	July 1, 2024	@	270,000.00	
		5.000%	July 1, 2024	@	17,865,000.00	
		4.000%	July 1, 2025	@	2,900,000.00	
		5.000%	July 1, 2025	@	16,145,000.00	225,000,000.00
June 15, 2005	$ 722,575,000 Series DG	5.000%	July 1, 2009	@	65,185,000.00	
		5.000%	July 1, 2010	@	68,530,000.00	
		5.000%	July 1, 2011	@	72,040,000.00	
		5.000%	July 1, 2012	@	75,735,000.00	
		5.000%	July 1, 2013	@	79,620,000.00	
		5.000%	July 1, 2014	@	83,705,000.00	
		5.000%	July 1, 2015	@	87,995,000.00	
		5.000%	July 1, 2016	@	92,510,000.00	
		5.000%	July 1, 2017	@	97,255,000.00	722,575,000.00
June 15, 2005	$ 18,735,000 Series DH	5.000%	June 1, 2006	@	18,735,000.00	18,735,000.00
Total State of Hawaii general obligation bonds and general obligation refunding bonds issued and outstanding						4,100,028,848.95

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

State of Hawaii

Dated __________, 2006

$350,000,000
General Obligation Bonds
of 2006, Series DI

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 $350,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2006, Series DI, (the "Bonds"). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State, as implemented by that certain Certificate of the Director of Finance of the State of Hawaii providing for the issuance of the Bonds (the "Bond Certificate"). Pursuant to Section 403 of the Bond Certificate, the State covenants and agrees as follows:

Section 1. *Purpose of Disclosure Certificate*. This Disclosure Certificate is being executed and delivered by the State for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. *Definitions*. In addition to the definitions set forth in the Bond Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean the Director of Finance or any successor Dissemination Agent designated in writing by the State and which has filed with the State a written acceptance of such designation.

"*Listed Events*" shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at http//www.sec.gov/info/municipal/nrmsir.htm.

"*Participating Underwriters*" shall mean any original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Repository*" shall mean each National Repository and each State Repository.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*State*" shall mean the State of Hawaii.

"*State Repository*" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. *Provision of Annual Reports.* (a) The State shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the State's fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2005, to each Repository an Annual report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate, provided that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under subsection 5(c).

(b) Not later than 15 Business Days prior to said date, the State shall provide the Annual Report to the Dissemination Agent (if other than the State). If the State is unable to provide to the Repositories an Annual Report by the date required in subsection (a) above, the State shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the State), file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. *Contents of Annual Reports.* The State's Annual Report shall contain or include by reference information of the type included in Appendix B to the final Official Statement (the "Official Statement") dated May 25, 2004, relating to the Bonds.

The audited financial statements of the State for the prior fiscal year shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State shall clearly identify each such other document so included by reference.

Section 5. *Reporting of Significant Events.* (a) Pursuant to the provisions of this Section 5, the State shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;

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

9. unscheduled draws on the credit enhancements reflecting financial difficulties;

10. Substitution of the credit or liquidity providers or their failure to perform; or

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the State obtains knowledge of the occurrence of a Listed Event, the State shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the State determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the State shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in Subsections (a)(4) and (5) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Bond Certificate.

Section 6. *Termination of Reporting Obligation.* The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

Section 7. *Dissemination Agent.* The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State pursuant to this Disclosure Certificate.

Section 8. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

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

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

Section 9. *Additional Information.* Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. *Default.* In the event of a failure of the State to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Certificate with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. *Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 12. *Governing Law.* This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawaii, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawaii; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

STATE OF HAWAII

By: ______________________________

GEORGINA K. KAWAMURA
Director of Finance
State of Hawaii

EXHIBIT A

FORM OF

NOTICE OF REPOSITORIES OF

FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Hawaii

Names of Bond Issues: State of Hawaii General Obligation Bonds of 2006, Series DI

Date of Issuance: ____________________

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated ____________. [The State anticipates that the Annual Report will be filed by ____________________]

Dates:

STATE OF HAWAII

By:____

Title:____

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APPENDIX F

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

State of Hawaii
Honolulu, Hawaii

Re: State of Hawaii General Obligation Bonds of 2006, Series DI (Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Hawaii (the "State") of $350,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2006, Series DI, (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 ____________ (the "Certificate"), and various acts of the Legislature of the State identified in the Certificate.

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

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

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

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

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

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

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

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

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

4. That under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the requirements of the Internal Revenue Code of 1986 (the "Code"), we are of the opinion that interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. We are further of the opinion that the Bonds are not "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. 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 and estate taxes; provided that no opinion is expressed with respect to the franchise tax imposed on banks and other financial institutions. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Very truly yours,

KATTEN MUCHIN ROSENMAN LLP

APPENDIX G

BOOK-ENTRY SYSTEM

General. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions in deposited securities, such as transfers and pledges, through electronic computerized Book-Entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (for the purposes of the discussion under "**Book-Entry System,**" a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry System for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal of and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of Book-Entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of the Official Statement. In reviewing this Official Statement it should be understood that while the Bonds are in the Book-Entry System, references in other Sections of this Official Statement to owners or holders should be read to include the person for whom the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners or holders by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

DTC and Book-Entry Information. Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the State and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the State.

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Bonds, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as Owner of the Bonds or (v) any other event or purpose.

APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
350 Park Avenue, New York, N.Y. 10022-6022

Form 500NY (5/90)