

**NEW ISSUE
FULL BOOK-ENTRY ONLY**

RATINGS: See "Ratings" herein.

In the opinion of Kutak Rock LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, 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. In the further opinion of Bond Counsel, 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. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" in this Official Statement.

**STATE OF HAWAII
\$350,000,000
General Obligation Bonds
of 2007, Series DJ**

(Base CUSIP: 419780)

Dated: Date of Delivery

Due: As shown on inside cover.

The General Obligation Bonds of 2007, Series DJ (the "Bonds"), will be issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the Bonds, purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Bonds may be made in the denomination of \$5,000 or any integral multiple thereof. See "Appendix G—Book-Entry System" herein.

The Bonds bear interest payable on April 1 and October 1 of each year, commencing October 1, 2007. 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.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

Ambac

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 Kutak Rock LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about April 12, 2007.

Citigroup

UBS Investment Bank

Dated: March 28, 2007

State of Hawaii

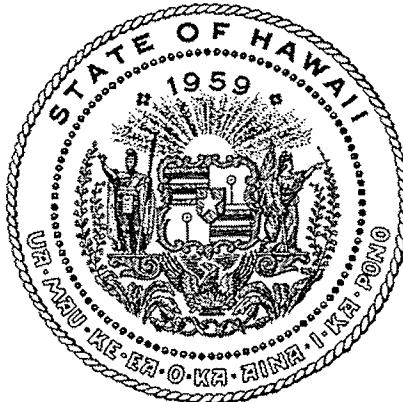
\$350,000,000 General Obligation Bonds of 2007, Series DJ

Dated: Date of Delivery
Due: April 1, as shown below

Due April 1	Principal Amount	Interest Rate	Yield	CUSIP Number (419780)
2011	\$ 9,010,000	3.625%	3.640%	5F4
2011	5,000,000	4.000	3.640	5G2
2012	4,690,000	3.625	3.670	5H0
2012	9,850,000	4.000	3.670	5J6
2013	6,315,000	4.000	3.700	5K3
2013	8,790,000	5.000	3.700	5L1
2014	2,705,000	3.700	3.740	5M9
2014	2,450,000	4.500	3.740	5N7
2014	10,640,000	5.000	3.740	5P2
2015	2,140,000	3.750	3.790	5Q0
2015	14,395,000	5.000	3.790	5R8
2016	8,990,000	4.000	3.830	5S6
2016	2,250,000	4.500	3.830	5T4
2016	6,095,000	5.000	3.830	5U1
2017	3,115,000	3.800	3.880	5V9
2017	375,000	4.500	3.880	5W7
2017	14,610,000	5.000	3.880	5X5
2018	18,970,000	5.000	3.940*	5Y3
2019	19,915,000	5.000	3.980*	5Z0
2020	20,910,000	5.000	4.020*	6A4
2021	21,960,000	5.000	4.060*	6B2
2022	23,055,000	5.000	4.090*	6C0
2023	24,210,000	5.000	4.120*	6D8
2024	25,420,000	5.000	4.140*	6E6
2025	26,690,000	5.000	4.160*	6F3
2026	28,025,000	5.000	4.170*	6G1
2027	29,425,000	5.000	4.180*	6H9

^{*}Priced to the optional call date of April 1, 2017 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

Kutak Rock LLP

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.

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

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OFFICIAL STATEMENT

State of Hawaii

\$350,000,000 General Obligation Bonds of 2007, Series DJ

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 2007, Series DJ (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 and certain other public purposes, including payment of \$30 million during fiscal year 2007 in connection with the Hawaiian Home Lands Settlement, as authorized by Act 178, SLH 2005, 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 April 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 April 1 and October 1 of each year, commencing October 1, 2007 (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 April 1, 2017 will be subject to redemption at the option of the State at any time on and after April 1, 2017, 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 Ambac Assurance Corporation for use in this Official Statement. References made to Appendix H for a specimen of the policy to be issued by Ambac Assurance Corporation.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), 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 Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Registrar and Paying Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the State, as the "Obligor"). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Registrar and Paying Agent has notice that any payment of principal or interest on a Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does not cover:

- (a) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
- (b) payment of any redemption, prepayment or acceleration premium; and
- (c) nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to

permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such Bond and will be fully subrogated to the surrendering holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,015,000,000 (unaudited) and statutory capital of approximately \$6,371,000,000 (unaudited) as of December 31, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following document filed by the Company with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement:

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

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, 2006. 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 moneys OHA was entitled to receive from the public trust lands.

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

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

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii*, et al., Civil No. 94-0205-01 (1st Cir.) ("OHA I")), claiming that the amount paid to OHA was inadequate and alleging that the State had failed to account for and fully pay the pro rata share of proceeds and

income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

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

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

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

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

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("OHA II"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation ("DOT") issued a report (the "IG Report") concluding that payments to OHA between 1992 and 1995 of \$28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the airports and not a diversion of airport revenues. In 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 moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

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

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

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

In December, 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court. Those appeals are now pending. Trial to determine the sufficiency of the proceeds paid to OHA by the HFDC 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 (the "HHA," since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

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

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

Department of Hawaiian Home Lands

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

The process was a three-step process which: (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the "Panel") to provide the Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by 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. By an opinion issued June 30, 2006, the Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Ch. 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Ch. 661, and remanded the case back to the trial court for further proceedings.

Employees' Retirement System

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

The Plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the

trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervenor defendants.

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

General

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

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

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

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal

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

From time to time, there are legislative proposals in the United States Congress that, if enacted, could alter or amend the federal income tax consequences referred to above or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, any such proposal would apply to bonds issued prior to enactment. Each purchaser of the Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

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

Tax Treatment of Original Issue Discount

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

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

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

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

Tax Treatment of Original Issue Premium

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

APPROVAL OF LEGAL PROCEEDINGS

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

RATINGS

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

UNDERWRITING

The Underwriters have agreed to purchase the Bonds at an aggregate purchase price equal to the principal amount of the Bonds, plus a net original issue premium of \$22,610,757.90 and less an aggregate underwriting discount of \$1,174,755.00. 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, as described under “CONTINUING DISCLOSURE.”

CONTINUING DISCLOSURE

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

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

FINANCIAL STATEMENTS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 2006, 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.

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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, 2006 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, 2006, 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, 2004, 2005 and 2006 and the net General Fund revenues after required exclusions, the average of the said three fiscal years, and the limit of total principal and interest which may be payable in any fiscal year. See "SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII" in Part I of Appendix B. The greatest amount of principal and interest payable in any fiscal year on the outstanding general obligation indebtedness as of March 1, 2007 and on the Bonds, after exclusions therefrom permitted by the Constitution, is \$550,695,881 in the fiscal year ending June 30, 2009. A summary of debt service on all general obligation bonded indebtedness of the State is set forth in the under "SUMMARY OF DEBT SERVICE" in Part I of Appendix B; however, the debt service excluded in that table includes all general obligation bonds for which reimbursement is made regardless of whether such bonds may be excluded under the Constitution.

As calculated from the State Comptroller's Bond Fund report as of January 31, 2007, the amount of authorized but unissued general obligation bonds (including the Bonds) is \$1,429,890,415. These bonds are scheduled to be issued prior to June 30, 2009. The Governor has proposed that the Legislature authorize approximately \$1 billion of additional general obligation bonds for issuance through fiscal year 2011. The Governor's proposal is before the Legislature, which is now in session. In addition, the Legislature has pending before its current session a number of bills that would authorize State bonded indebtedness, including indebtedness that would be included in the debt limit calculation. It is uncertain whether or to what extent the Legislature will enact the Governor's proposal or the other such bills now on file in the current session.

Exclusions

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

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

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

far as schools or a stadium is concerned, since the tax is not derived from the consumption or use or sale of goods in using schools or a stadium.

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

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

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

Other Constitutional and Statutory Provisions

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

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

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

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

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

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

Financing Agreements (Including Leases)

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

Reimbursement to State General Fund for Debt Service

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

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

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

Introduction

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

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

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

General Fund

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

The Constitution provides that whenever the General Fund balance at the close of each of two successive fiscal years exceeds 5% of General Fund revenues for each of the two fiscal years, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. The Constitution does not specify the amount of, or a formula for calculating, any such tax refund or tax credit. Because the fiscal year 2005 and 2006 fund balances exceeded 5% of General Fund revenues for those years, the two-successive-fiscal-year criterion was 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 2006 represented approximately 90% of all tax revenues of the State, are deposited to the General Fund. The individual income tax rates for married or unmarried individuals, including Head of Household as well as estates and trusts, range from 1.4% to 8.25% of taxable income. Corporate income tax rates range from 4.4% to 6.4%. The general excise (gross income) tax is a business privilege tax measured by the application of rates against values of products, gross proceeds of sales or gross income. The use tax is an excise tax levied on tangible personal property, contracting, or services imported or purchased from an unlicensed seller for resale or use in the State. The tax is based upon the purchase price or value of the tangible personal property, contracting, or services purchased or imported, whichever is applicable. Effective January 1, 2007, the City and County of Honolulu surcharge of $\frac{1}{2}$ of 1% is imposed upon Oahu activities subject to the 4% General Excise and Use Taxes. The State retains, as General Fund realizations, 10% of the county surcharge collected to reimburse the costs of assessment, collections and disposition incurred by the State. The Public Service Company tax is a tax measured by the gross income from public utility business of public utilities. The estate and transfer tax is a tax on the transfer of a taxable estate and a generation skipping transfer equal to the federal credit for state death taxes allowed by the Section 2011 of the Code and a federal credit for state taxes allowed by Section 2604 of the Code. From January 1, 2005 to December 31, 2010, the federal credit was repealed and replaced with a deduction for state death taxes. Hawaii's estate and transfer tax is currently not effective for decedents dying after December 31, 2004 and before December 31, 2010. The franchise tax is a tax measured by the taxable income of banks and other financial corporations. There is an excise tax on those who sell or use tobacco products and a gallonage tax imposed on dealers who sell or use liquor.

Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, grants, charges for administrative services and other sources. In fiscal year 2006, these non-tax revenues comprised approximately 10% 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 2006 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 52% of the federal grants are awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 28% of such federal funds are used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 8% of all federal funds, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, account for about 4% of such federal receipts. Other programs account for the balance of such receipts. In fiscal year 2004, the State received a one-time federal grant of \$50 million from the Jobs and Growth Tax Relief Reconciliation Act of 2003. The following table details the annual federal grants for the indicated fiscal years to the State's departments, agencies and institutions.

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

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 receives 24½% of the moneys from the tobacco settlement. All interest earned from moneys in the EBR Fund is credited to the General Fund. Appropriations from the EBR Fund require a two-thirds majority vote of each house of the legislature. The EBR Fund balance was \$54.0 million as of June 30, 2004, \$54.1 million as of June 30, 2005, and \$53.5 million as of June 30, 2006. Projected fund balances, after appropriations, are \$61.2 million, \$73.5 million, and \$85.8 million for fiscal years 2007, 2008 and 2009, respectively.

The annual proceeds from the tobacco settlement were \$37.8 million for fiscal year 2004, \$38.3 million for fiscal year 2005, and \$35.2 million for fiscal year 2006. 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 2007 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 ("UH") 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; however, currently approved appropriations for fiscal year 2007 have exceeded the expenditure ceiling. Projected appropriations for fiscal years 2008 and 2009 are not expected to exceed the expenditure ceiling.

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

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

Capital Improvement Expenditures. Annual capital improvement 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, as amended by Act 160, SLH 2006, provides for expenditures of \$150.6 million for fiscal year 2007 from the SEFISF. In addition, Act 246, SLH 2006, provides for expenditures of \$40 million for fiscal year 2007 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.)

Negotiations for the period from July 1, 2007 to June 30, 2009 are in progress, except that for Unit 11, an arbitration award providing for salary increases of 27.2% over four years has been issued. In addition, an arbitration hearing for Units 2, 3, 4, 6, 8 and 13 was held February 5-8, 2007, and for Unit 9, an arbitration hearing was held February 12-13, 2007. For other bargaining units, negotiations are continuing. As of the date of this Official Statement, no arbitration award has been issued for the above mentioned Units.

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. The privatization provisions of Act 90 sunset on June 30, 2007.

State Employees' Health Benefits

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

Act 245, SLH 2005 (partially codified as Chapter 87D, HRS), temporarily authorizes employee organizations to establish voluntary employees beneficiary association ("VEBA") trusts to provide health benefits to state and county employees in their bargaining units outside of the Trust Fund. Each VEBA trust is to provide health benefits to State and county employees who retire after establishment of the VEBA trust ("future retirees") and is to give State and county employees who were members of applicable bargaining units and who retired before establishment of the VEBA trust ("existing retirees") a one-time option to transfer from the Trust Fund to the VEBA trust. The State and county employers' monthly contributions to each VEBA trust for active employees and future retirees are to be established by collective bargaining. Monthly contributions to each VEBA trust for existing retirees are to be equal to the contributions paid on behalf of similarly situated retirees under the Trust Fund. The stated purpose of Act 245 is to allow the temporary establishment of a VEBA trust pilot program so as to enable a

thorough analysis of the costs and benefits of VEBA trusts against the Trust Fund to determine what actual savings could be realized by the State through the VEBA trust mechanism. The current language of Act 245 provides for the Act to be repealed on July 1, 2008. However, bills are currently pending before the Legislature to either make Act 245 permanent or extend its repeal date. The Hawaii State Teachers Association implemented a VEBA trust for its active employees on March 1, 2006 and for retirees on January 1, 2007. Other employee-organizations have expressed interest in VEBA trusts for their members.

Other Post Employment Benefits

With respect to other post employment benefits (“OPEBs”), such as retiree health insurance, the State is undertaking, in consultation with its professional actuarial advisors, to quantify its unfunded OPEBs liability under Governmental Accounting Standards Board Statement 45 (“GASB 45”), which becomes effective, in the case of the State, for its fiscal year ending June 30, 2008. The actuarial report on the State’s unfunded OPEBs liability is expected to be completed before the end of May 2007. The State then will address available alternatives in the light of the GASB 45 requirements.

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, 2006, the System’s membership was comprised of approximately 64,069 active employees, 5,164 inactive vested members and 34,304 pensioners and beneficiaries. The total assets of the System on a market value basis amounted to approximately \$9.2 billion as of June 30, 2005, and \$9.9 billion as of June 30, 2006. Actuarial certification of assets as of June 30, 2005 was \$8.9 billion (See “STATE EMPLOYEES’ RETIREMENT SYSTEM” in Part I of Appendix B hereto). The June 30, 2006 actuarial certification of assets was \$9.5 billion, and its unfunded actuarial accrued liability was \$5.1 billion. In 1998, Act 151, SLH 1998, was passed modifying the administration of the System, including its actuarial valuation methods and actuarial assumptions. Since the System is a cost-sharing, multiple-employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the counties.

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

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

method used to calculate employer contributions was changed by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions are determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the System.

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

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

As of March 31, 2006, the noncontributory plan covered approximately 55,477 active employees or 87% of all active members of the System. The contributory plan covered approximately 8,592 active employees. Approximately, 26,228 of eligible members active on March 31, 2006 elected to transfer the defined benefit plan effective July 1, 2006, including 261 from the Contributory Plan and 25,967 members from the noncontributory plan. Based on these member elections; if the defined benefit plan were in effect on March 31, 2006 the membership counts would be 8,331 contributory members, 29,510 noncontributory members, and 26,228 defined benefit members, or 13%, 46% and 41% of active membership, respectively. The defined benefit plan membership will continue to increase in the future as most new employees hired from July 1, 2006 will be required to join the defined benefit plan.

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

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") Fourth Quarter 2006 and First Quarter 2007 Quarterly Statistical and Economic Reports ("QSER") or otherwise prepared by DBEDT some of which may be found at <http://www.hawaii.gov/dbedt/>. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are to calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position. See "APPENDIX B – FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII."

DBEDT's latest forecast for the State's nominal Gross Domestic Product ("GDP") (the value of all goods and services produced and consumed within the State, formerly called the Gross State Product or "GSP") growth in 2007 is 5.5%. In real terms (adjusting for inflation), DBEDT estimates that the 2007 State's GDP growth over 2006 will be 2.6%.

State of the Economy

Positive growth in employment, personal income, and tax collection are indicative of a continuing broad based expansion of Hawaii's economy. The growth rates in many areas, however, have slowed in the previous two years. After very strong growth in the construction sector and the visitor industry in 2005, the growth in the construction sector has slowed significantly in recent quarters, while the visitor industry stabilized in 2006. Visitor arrivals were flat in 2006, but visitor expenditures were still up.

In the fourth calendar quarter of 2006, 646,050 civilian people were employed in Hawaii. This was the highest civilian employment level in Hawaii. Compared with the fourth calendar quarter of 2005, 19,650 or 3.1% more civilian people were employed. In the fourth quarter of 2006, Hawaii's unemployment rate decreased to 2.0%, significantly below the U.S. average of 4.5%. For all of 2006, total civilian employment was up 3.0% and the unemployment rate averaged 2.6%.

Nominal total personal income rose 6.1% in the third calendar quarter of 2006 compared to the third calendar quarter of 2005. Ranked by the rate of growth, the greatest increase was seen in Dividends, Interest, and Rent (9.2%), followed by Personal Current Transfer Receipts (7.1%), Supplements to Wages and Salaries (6.4%), and Wage and Salary Disbursements (5.7%). Contributions for Government Social Insurance, which is subtracted from personal income, increased 6.7%. For the first three quarters in 2006, total personal income was up 5.9 percent compared to the first three quarters of 2005. Year-to-date, earnings increased for all sectors except for Forestry, Fishing, and Related Activities and Management of Companies and Enterprises compared to the same period last year.

Tax revenue distributed to the State General Fund totaled nearly \$1,097 million in the fourth calendar quarter of 2006, an 11.1% increase from the fourth calendar quarter of 2005. Revenues from the general excise and use tax (GET) increased by 13.8% and net individual income tax collections increased 7.7% in the fourth calendar quarter of 2006 compared to the fourth calendar quarter of 2005. Transient Accommodation Tax (TAT) revenue increased 4.7%. For all of 2006, the State General Fund revenues were up 6.3%, GET up 8.6%, net individual income tax collections up 8.9%, and TAT up 6.3%.

The total number of visitors arriving by air decreased slightly (-0.5%) in the fourth calendar quarter of 2006, compared with the fourth calendar quarter of 2005. An 8.6% decrease in international arrivals outweighed a 2.9% increase in domestic arrivals, resulting in the overall quarterly decrease in total arrivals. The average daily visitor census was down 1.7% for the quarter. For all of 2006, total arrivals were basically flat, while average daily census was down 0.3% from 2005. Hotel occupancy rates decreased 2.9 percentage points to 74.4% for the fourth calendar quarter of 2006, compared with the fourth calendar quarter of 2005. For the year, hotel occupancy averaged 79.8%, down 1.3 percentage points from 2005.

Indicators of the Hawaii's construction industry remained positive, but the growth rates slowed significantly in 2006 compared to the previous year. Construction jobs increased 3.4% to 36,550 jobs in the fourth calendar quarter of 2006 compared to the fourth calendar quarter of 2005. The value of private building authorizations in the fourth calendar quarter of 2006 was up only 3.8% from the fourth calendar quarter of 2005. This growth is substantially lower than in 2005 when construction jobs grew 7.6% and total value of private building permits increased 8.0%.

Outlook for the Economy

In its latest quarterly forecasts released in the first quarter of 2007, DBEDT anticipates that Hawaii's economy will maintain moderate growth in 2007, based on continued job growth, improvement in visitor arrivals, strong growth in non-residential construction and the ongoing federal military housing privatization initiative. Projections of economic growth for both the U.S. Mainland and Japan, Hawaii's primary visitor markets, are reasonably strong.

Prospects for all three main drivers of Hawaii's economy continue to appear positive. The visitor industry (especially visitor expenditures), federal spending, and private construction all remain positive. In 2006, the value

of private building authorizations was up 8.0% over 2005, amounting to a total value of \$3,770 million. The high value of private building authorizations should mean a healthy construction sector for the next few years.

The future conditions of Hawaii's economy are linked to the growth of the Mainland U.S. and Japanese economies. According to the February 2007 *Blue Chip Economic Consensus Forecasts*, the projected real GDP growth for the U.S. is 2.7% in 2007 and 3.0% in 2008. For Japan, real GDP growth is projected to be 2.1% in 2007 and 2.2% in 2008. The expectation for U.S. consumer price inflation is 1.9% for 2007 and 2.3% for 2008.

Hawaii total visitor arrivals and visitor days both decreased slightly in 2006 compared to 2005. Visitor expenditures, however, increased 3.0%. In 2007, visitor arrivals, visitor days, and visitor expenditures are predicted to increase 1.4%, 1.5%, and 4.8%, respectively.

Nominal personal income growth rates for 2006 and 2007 are forecast at 6.4% and 6.0%, respectively. Real personal income growth rates for 2006 and 2007 are forecast at 0.5% and 1.9%, respectively, after deflating the nominal projections by the Honolulu CPI-U.

Hawaii's projected inflation rates for 2006 and 2007 have been forecast at 5.9% and 4.0%, 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

	Unit	4 th Quarter 2006		Year Ending December 31, 2006	
		Number	% Change Year Ago	Number	% Change Year Ago
Civilian Labor Force	Persons	658,900	2.4	651,850	2.7
Civilian Employment	Persons	646,050	3.1	635,100	3.0
Civilian Unemployment	Persons	12,850	-23.3	16,750	-5.6
Unemployment Rate	%	2.0	-0.6	2.6	-0.3
Total Wage & Salary Jobs	Jobs	635,250	2.2	624,650	2.6
Total Non-Agriculture Wage & Salary Jobs	Jobs	628,850	2.2	618,350	2.7
Nat. Resources, Mining, Constr.	Jobs	36,550	3.4	36,000	7.6
Manufacturing	Jobs	15,250	-0.3	15,250	0.3
Wholesale Trade	Jobs	18,300	1.7	18,100	2.5
Retail Trade	Jobs	72,350	0.4	70,950	2.3
Transp., Warehousing, Util.	Jobs	34,000	5.8	33,250	7.3
Information	Jobs	11,000	0.0	11,100	3.3
Financial Activities	Jobs	30,500	2.3	30,050	2.6
Professional & Business Services	Jobs	79,500	5.2	77,500	4.7
Educational Services	Jobs	14,350	1.8	13,950	2.2
Health Care & Social Assistance	Jobs	57,350	0.3	57,000	1.1
Arts, Entertainment & Recreation	Jobs	11,850	-0.4	11,800	1.3
Accommodation	Jobs	39,250	0.0	39,250	1.2
Food Services & Drinking Places	Jobs	57,550	1.9	57,250	2.1
Other Services	Jobs	26,000	2.0	25,700	2.2

Government	Jobs	125,000	2.8	121,100	1.2
Federal	Jobs	31,950	0.9	31,650	1.1
State	Jobs	75,550	3.9	71,950	1.1
Local	Jobs	17,500	1.7	17,500	1.7
Agriculture wage and salary jobs	Jobs	6,400	-3.8	6,300	-8.0
State General Fund Revenues	\$1,000	1,096,749	11.1	4,521,846	6.3
General Excise and Use Tax	\$1,000	625,584	13.8	2,457,379	8.6
Income-Individual	\$1,000	369,081	7.7	1,576,674	8.9
Transient Accommodation Tax	\$1,000	48,204	4.7	220,550	6.3

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2004 TO 2009

Economic Indicators	2004 (Actual)	2005	2006	2007 (Forecast)	2008	2009
Total population (thousands)	1,262	1,275	1,289	1,303	1,317	1,330
Visitor arrivals (thousands)	6,992	7,494	7,517	7,706	7,880	8,051
Visitor days (thousands)	63,343	68,242	69,102	70,789	72,422	74,012
Visitor expenditures (million dollars)	10,862	11,904	12,541	13,289	14,020	14,749
Honolulu CPI-U (1982-84=100)	190.6	197.8	207.3	214.8	221.6	228.3
Personal income (million dollars)	41,178	43,953 ¹	47,030	49,851	52,593	55,328
Real personal income (millions of 2000\$)	38,088	39,176 ¹	39,995	40,921	41,833	42,727
Total wage & salary jobs (thousands)	590.7	608.9	624.3	633.7	641.3	649.0
Gross domestic product (million dollars) ²	50,238	54,019 ¹	57,692	60,750	63,848	67,041
Real gross domestic product (millions of 2000\$) ²	44,683	46,466 ³	47,994	49,161	50,359	51,587
Gross domestic product deflator (2000=100) ²	112.4	116.3 ³	120.2	123.6	126.8	130.0
Annual Percentage Change						
Total population	1.1	1.0	1.1	1.1	1.1	1.0
Visitor arrivals	8.5	7.2	0.3	2.5	2.3	2.2
Visitor days	6.9	7.7	1.3	2.4	2.3	2.2
Visitor expenditures	8.0	9.6	5.4	6.0	5.5	5.2
Honolulu CPI-U	3.3	3.8	4.8	3.6	3.2	3.0
Personal income	8.9	6.7 ¹	7.0	6.0	5.5	5.2
Real personal income	5.4	2.9 ¹	2.1	2.3	2.2	2.1
Total wage & salary jobs	2.8	3.1	2.5	1.5	1.2	1.2
Gross domestic product ²	8.3	7.5 ¹	6.8	5.3	5.1	5.0
Real gross domestic product ²	5.0	4.0 ³	3.3	2.4	2.4	2.4
Gross domestic product deflator ²	3.2	3.4 ³	3.4	2.8	2.6	2.5

¹ Preliminary.

² Formerly called 'Gross state product'. See U.S. Bureau of Economic Analysis <http://www.bea.gov/bea/newsrel/GSPNewsRelease.htm>.

³ DBEDT-adjusted U.S. Bureau of Economic Analysis advance estimate.

Source: Hawaii State Department of Business, Economic Development & Tourism, November 20, 2006.

Labor Force and Jobs

In the fourth calendar quarter of 2006, 646,050 civilian people were employed in Hawaii, a new all-time quarterly employment peak. This employment level was 19,650 or 3.1% more than that for the fourth calendar quarter of 2005. For all of 2006, civilian employment was up 3.0% over 2005.

Total civilian labor force increased 2.4% in the fourth calendar quarter of 2006 to 658,900. For the year, Hawaii civilian labor force increased 2.7% over 2005.

Hawaii unemployment rate (seasonally not-adjusted) was down in the fourth calendar quarter of 2006 to 2.0% compared to the 2.6% unemployment rate in the fourth calendar quarter of 2005. For the year, Hawaii unemployment rate averaged 2.6% compared to 2.8% for 2005.

Hawaii's total wage and salary jobs increased 2.2% or 13,500 jobs in the fourth calendar quarter of 2006 compared to the fourth calendar quarter of 2005. For all of 2006, wage and salary jobs were up 2.6% from 2005. All non-agriculture sector industries except for Manufacturing and Arts, Entertainment & Recreation showed positive wage and salary job growth for the fourth calendar quarter of 2006. Four private sector industries added more than one thousand jobs in the fourth calendar quarter of 2006 compared to the fourth calendar quarter of 2005.

Among private sector industries, Professional and Business Services sector added the most jobs in the fourth calendar quarter of 2006 with an increase of 3,950 jobs or 5.2% over the fourth calendar quarter of 2005. Transportation, Warehousing, and Utilities contributed the next greatest increase of 1,850 jobs or 5.8% increase. The Natural Resources, Mining and Construction sector added 1,200 jobs or 3.4%, and the Food Services and Drinking Places sector added 1,050 jobs or 1.9%.

During the fourth calendar quarter of 2006, only three private sector industries lost jobs compared with the fourth calendar quarter of 2005. The Arts, Entertainment & Recreation sector lost 50 jobs or 0.3%, the Manufacturing sector was down 50 jobs or 0.4% and the Agricultural sector was down 250 jobs or 3.8%.

Compared with the fourth calendar quarter of 2005, the government sectors added 3,450 jobs or 2.9% in the fourth calendar quarter of 2006. The State government added the most jobs with an increase of 2,850 jobs or 3.9%. The Federal government and local government added 300 jobs each in the quarter.

Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(Number of persons)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate (%)
1996	596,750	1.2	561,700	0.8	5.9
1997	601,650	0.8	566,750	0.9	5.8
1998	604,300	0.4	570,150	0.6	5.7
1999	606,650	0.4	576,300	1.1	5.0
2000	609,000	0.4	584,850	1.5	4.0
2001	615,250	1.0	589,200	0.7	4.2
2002	610,400	-0.8	585,700	-0.6	4.1
2003	614,700	0.7	590,750	0.9	3.9
2004	619,150	0.7	598,900	1.4	3.3
2005	634,600	2.5	616,850	3.0	2.8
2006	651,850	2.7	635,100	3.0	2.6

Income and Prices

Hawaii total personal income rose 6.1% during the third calendar quarter of 2006 (the period for which the latest data are available from the Bureau of Economic Analysis) over the third calendar quarter of 2005. Ranked by the rate of growth, the greatest increase was seen in Dividends, Interest, and Rent, followed by Personal Current

Transfer Receipts, Supplements to Wages and Salaries, and Wage and Salary Disbursements. Contributions for Government Social Insurance, which is subtracted from personal income, also increased. For the first three quarters in 2006, earnings increased for all sectors except for Forestry, Fishing, and Related Activities and Management of Companies and Enterprises compared to the same period last year.

Nominal personal income, not adjusted for inflation, increased about \$2.7 billion or 6.1% in the third calendar quarter of 2006 compared to the third calendar quarter of 2005. Wage and salary disbursements grew by nearly \$1.5 billion or 5.7%. Wages and salaries accounted for about 57% of total personal income. Year-to-date, total personal income increased 5.9% while wage and salary disbursements increased 6.0% from the same period last year.

Supplements to Wages and Salaries, consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits, increased by \$450 million or 6.4% in the third calendar quarter of 2006 compared to the third calendar quarter of 2005. Proprietors' Income, the income most closely related to entrepreneurial activity, grew by \$37 million or 1.2%. Year-to-date Supplements to Wages and Salaries rose 5.4%, while Proprietors' Income grew 4.3% from the same period last year.

Dividends, Interest, and Rent rose by \$612 million or 9.2% in the third calendar quarter of 2006. Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$401 million or 7.1% for the quarter. Contributions to Government Social Insurance, payments subtracted from personal income, increased \$245 million or 6.7%. Year-to-date, growth rates were 7.5%, 6.0%, and 7.6%, respectively.

Earnings increased across most private sector industries between the third calendar quarter of 2005 and the third calendar quarter of 2006. In dollar terms, the largest increase occurred in Professional and Technical Services (\$229 million), followed by Accommodation and Food Services (\$223 million), Construction (\$197 million), Information (\$101 million), and Administrative and Waste Services (\$94 million). Federal Government earnings increased \$360 million or 5.4% and State and Local Government earnings increased \$317 million or 7.3%.

Honolulu's inflation rate reached 5.8% in the second half of 2006, up 1.3 percentage points from the second half of 2005. Honolulu's inflation rate was 3.2 percentage points higher than the 2.6% inflation rate experienced for the nation during the second half of 2006. The Honolulu increase was produced by the Housing component increasing 8.5%, Transportation, mostly fuels, increasing 5.5% and food and beverage components increasing 4.5%.

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Table 4
PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES
(in millions of dollars at seasonally adjusted annual rates)

Series	Third Quarter 2005	Third Quarter 2006	Year-to-date 2005	Year-to-date 2006	Percent change from Third Quarter 2005	YTD 2006 from 2005
PERSONAL INCOME	44,194	46,900	43,644	46,219	6.1	5.9
Derivation of Personal Income						
Earnings By Place of Work	35,575	37,513	35,058	37,075	5.4	5.8
Wage and Salary disbursements	25,463	26,913	25,103	26,613	5.7	6.0
Supplements to wages and salaries	7,043	7,493	6,981	7,360	6.4	5.4
Emp'ee contrib. for emp'ee pension & ins. Funds	5,226	5,564	5,197	5,448	6.5	4.8
Employer contributions for gov't social ins.	1,817	1,929	1,784	1,913	6.2	7.2
Proprietors' income	3,069	3,106	2,973	3,102	1.2	4.3
Farm proprietors' income	13	(1)	(0)	(2)	()	()
Nonfarm proprietors' income	3,056	3,106	2,974	3,104	1.6	4.4
Dividends, interest, and rent	6,640	7,252	6,577	7,073	9.2	7.5
Personal current transfer receipts	5,617	6,018	5,582	5,915	7.1	6.0
State unemployment insurance benefits	86	90	88	85	4.7	-2.7
Personal current transfer receipts exc State U.I.	5,531	5,928	5,494	5,830	7.2	6.1
Less: Contributions for gov't social insurance	3,638	3,883	3,573	3,844	6.7	7.6
Personal contributions for gov't social insurance	1,821	1,953	1,789	1,932	7.2	8.0
Employer contributions for gov't social insurance	1,817	1,929	1,784	1,913	6.2	7.2
Earnings By Industry	35,575	37,513	35,058	37,075	5.4	5.8
Farm Earnings	234	226	218	223	-3.4	2.1
Nonfarm Earnings	35,341	37,286	34,840	36,852	5.5	5.8
Private Earnings	24,348	25,616	23,835	25,422	5.2	6.7
Forestry, fishing, related activities, and other	53	50	53	51	-5.7	-4.4
Mining	53	54	52	55	1.9	4.5
Utilities	277	298	277	289	7.6	4.6
Construction	2,737	2,934	2,620	2,912	7.2	11.1
Manufacturing	900	945	902	944	5.0	4.6
Durable goods	339	352	338	354	3.8	4.6
Nondurable goods	561	593	564	590	5.7	4.7
Wholesale trade	1,029	1,116	1,017	1,096	8.5	7.7
Retail trade	2,359	2,452	2,316	2,458	3.9	6.1
Transportation and warehousing	1,469	1,562	1,414	1,525	6.3	7.9
Information	708	809	706	800	14.3	13.3
Finance and insurance	1,223	1,279	1,222	1,274	4.6	4.3
Real estate and rental and leasing	1,143	1,122	1,078	1,123	-1.8	4.1
Professional and technical services	2,146	2,375	2,080	2,311	10.7	11.1
Management of companies and enterprises	533	588	636	581	10.3	-8.7
Administrative and waste services	1,511	1,605	1,457	1,588	6.2	8.9
Educational services	496	536	492	526	8.1	7.0
Health care and social assistance	3,158	3,030	3,059	3,093	-4.1	1.1
Arts, entertainment, and recreation	456	472	448	467	3.5	4.2
Accommodation and food services	3,009	3,232	2,935	3,185	7.4	8.5
Other services, except public administration	1,087	1,157	1,071	1,145	6.4	7.0
Government and government enterprises	10,993	11,670	11,005	11,430	6.2	3.9
Federal	6,670	7,030	6,720	6,904	5.4	2.7
Federal, civilian	2,678	2,805	2,675	2,785	4.7	4.1
Military	3,992	4,225	4,045	4,119	5.8	1.8
State and local	4,323	4,640	4,285	4,526	7.3	5.6

* Percentage changes involving negative numbers are not meaningful.

Table 5

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

YEAR	ANNUAL AVERAGE	% CHANGE
1996	30,122	0.7
1997	31,002	2.9
1998	31,757	2.4
1999	32,646	2.8
2000	34,451	5.5
2001	35,126	2.0
2002	36,370	3.5
2003	37,804	3.9
2004	41,178	8.9
2005	43,953	6.7
2006*	46,219	5.9

* Average of the first three quarters.

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Table 6
HONOLULU AND U.S. CONSUMER PRICE INDEX,
ALL URBAN CONSUMERS (CPI-U)
(1982-84=100. Data are not seasonally adjusted.)

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

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

NA Not available.

¹ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.

² No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.

Source: U.S. Bureau of Labor Statistics. Consumer Price Index-All Urban Consumers (Current Series) <<http://data.bls.gov/cgi-bin/dsrv>> and BLS Honolulu CPI News Releases and <<http://www.bls.gov/ro9/cpihono.htm>> accessed February 21, 2007.

Table 6
**HONOLULU AND U.S. CONSUMER PRICE INDEX,
 ALL URBAN CONSUMERS (CPI-U) – Continued**
 (percentage change)

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

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

NA Not available.

¹ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.

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Source: U.S. Bureau of Labor Statistics. Consumer Price Index-All Urban Consumers (Current Series) <<http://data.bls.gov/cgi-bin/dsrv>> and BLS Honolulu CPI News Releases and <<http://www.bls.gov/ro9/cpihono.htm>> accessed February 21, 2007.

Tourism

During the fourth calendar quarter of 2006, both the total number of visitor arrivals and visitor days decreased from the fourth calendar quarter of 2005. Substantial decreases in international visitor arrivals (visitors arriving from international airports) and visitor days (arrivals times length of stay) combined with a small increase in domestic arrivals (visitors arriving from the U.S. Mainland airports) and days caused the losses made during this quarter.

The total number of visitors arriving by air was down 0.5% in the fourth calendar quarter of 2006 from the fourth calendar quarter of 2005. This was a decrease of about 9,000 visitors compared with the fourth calendar quarter of 2005. Arrivals on domestic flights increased by 37,000 visitors or 2.9%, while arrivals on international flights decreased by about 46,000 visitors or 8.6%, comparing the fourth calendar quarter of 2006 to that of 2005.

Considering the different major market areas, the U.S. West (Western and Pacific States) had about 39,650 more visitors or a 5.3% increase in the fourth calendar quarter of 2006 from the fourth calendar quarter of 2005. Arrivals from the U.S. East (rest of the U.S.) decreased by about 8,000 visitors or 1.9%. The Japan market was down 10.1% or about 38,500 visitors over the fourth calendar quarter of 2005.

The total average daily visitor census was down about 2,980 visitors a day or 1.7% in the fourth calendar quarter of 2006 from the fourth calendar quarter of 2005. This decrease was the result of a 12.5% decrease in the international visitor daily census and a moderate 1.6% increase in domestic visitor daily census.

Airline capacity to Hawaii, as measured by the number of available seats flown, increased 6.3% in the fourth calendar quarter of 2006 from the fourth calendar quarter of 2005. For the calendar year 2006, total air seats increased 2.8% from 2005.

Hotel occupancy rates decreased 2.9 percentage points from 77.2% in the fourth calendar quarter of 2005 to 74.3% in the fourth calendar quarter of 2006. For the calendar year of 2006, hotel occupancy rate decreased to 79.8%, down 1.3 percentage points from 2005.

Table 7

VISITOR ARRIVALS					
Average Length of Stay, Visitor Days, Average Daily Census					
	2004	2005	2006	% Change 2004-2005	% Change 2005-2006
Total Arrivals					
Total	6,912,094	7,416,574	7,414,613	7.30	-0.03
Domestic	4,892,960	5,313,281	5,450,697	8.59	2.59
International	2,019,134	2,103,293	1,963,916	4.17	-6.63
Average Length of Stay					
Total	9.08	9.13	9.10	0.55	-0.33
Domestic	9.90	9.92	9.84	0.20	-0.81
International	7.09	7.12	7.06	0.42	-0.84
Visitor Days					
Total	62,761,989	67,687,479	67,499,394	7.85	-0.28
Domestic	48,441,764	52,704,668	53,633,502	8.80	1.76
International	14,320,225	14,982,811	13,865,892	4.63	-7.45
Average Daily Census					
Total	171,481	185,445	184,930	8.14	-0.28
Domestic	132,355	144,396	146,941	9.10	1.76
International	39,126	41,049	37,989	4.91	-7.45

Table 8
HOTEL OCCUPANCY RATE (%)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
1982	79.0	65.9	70.9	66.7	70.4
1983	75.2	68.1	71.7	66.5	69.7
1984	84.0	75.6	74.6	75.1	76.0
1985	88.1	69.1	75.0	72.5	76.1
1986	87.0	78.8	79.9	76.8	81.7
1987	88.0	77.1	82.1	77.8	81.1
1988	81.7	75.1	81.3	75.1	78.5
1989	85.9	73.9	81.0	75.7	79.0
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005*	83.8	78.4	84.8	77.2	81.1
2006	83.7	78.2	82.8	74.3	79.8

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

* Source revised months of the 4th Quarter and the annual average 2005.

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

Construction

Hawaii's construction industry grew moderately in the fourth calendar quarter of 2006. Total value of private building authorizations increased 3.8% in the fourth calendar quarter of 2006 from the fourth calendar quarter of 2005. The total contracting tax base was up 35.1% in the third quarter of 2006 (the latest period for which contracting tax base data are available). Construction jobs continued to grow but at slower rates as compared to 2005.

Wage and salary jobs in the Natural Resources, Mining and Construction industry were up 3.4% or 1,200 jobs from the fourth quarter of 2005 to the fourth quarter of 2006. The Natural Resources, Mining and Construction jobs comprise of 99% construction jobs and 1.0% mining jobs.

The Honolulu median sale price for single family homes seemed to have stabilized and that for condominium resales continued to increase, while units sold decreased significantly in the calendar year of 2006 compared with the calendar year of 2005. In 2006, the median sales price for single family homes increased 6.8%

but the number of sales decreased 12.5% compared to 2005. For condominiums, the median sales price increased 15.2% while the number of sales decreased 20.2% in 2006 compared to 2005.

In January 2007, the median sale price for single family homes was \$600,000, down 2.4% from January 2006, while the median sale price for condominiums was \$320,000, up 8.5% from January 2006.

In the fourth calendar quarter of 2006, private building authorizations increased nearly \$38 million or 3.8% compared with the fourth calendar quarter of 2005. The value of residential permits was down by nearly \$308 million or 42.3%, while the value of commercial and industrial permits was up by about \$242 million or 394.5%. Additionally, the value of additions and alternatives was up by about \$103 million or 47.1%.

The value of statewide private building permits increased 8.0% for the calendar year of 2006 compared with the calendar year of 2005. The value of Honolulu's total private building permits increased 19.2% and the value of Maui County authorizations increased 17.8% in 2006. The value of Hawaii County private authorizations, however, was down by 8.2% and 17.0%, respectively in 2006 from 2005. Similarly, value of Kauai County's residential permits was down 17.0% during the same period.

After a decrease in the third calendar quarter, government contracts awarded increased 76.6% in the fourth calendar quarter of 2006 compared to the fourth calendar quarter of 2005. For all of 2006, the value of government contracts awarded increased 17.8% over 2005. In addition, the ongoing multi-billion military housing privatization initiative will also add to positive growth in the Hawaii construction industry in coming years.

The Honolulu Construction Cost Index for Single Family Residences rose by 10.9% in the fourth calendar quarter of 2006, over the fourth calendar quarter of 2005, while the comparable index for high-rise buildings rose by 9.9%.

Table 9

**ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE
BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED
(In Millions of Dollars)**

Year	Contracting Tax Base ¹	Private Building Authorization			Government Contracts Awarded	
		Total Private Authorizations	Residential ⁴	Commercial & Industrial ²		
1996	3,285.1	1,117.8	487.0	252.8	378.0	885.5
1997	2,944.4	1,179.2	542.5	264.5	372.2	615.6
1998	3,016.0	1,054.4	485.6	205.6	363.1	685.1
1999	2,991.2	1,320.2	628.7	306.3	385.2	584.8
2000 ³	3,613.4	1,513.0	800.2	246.3	466.7	810.9
2001	3,766.4	1,585.7	882.4	329.1	374.2	715.7
2002 ⁴	4,274.9	1,772.1	1,112.9	254.2	404.9	768.3
2003 ⁴	4,536.3	2,352.7	1,336.1	507.9	508.7	633.4
2004 ⁴	4,921.5	2,726.5	1,767.7	303.3	655.6	1,384.6
2005 ⁴	5,618.4	3,492.0	2,259.3	433.5	799.1	725.1
2006 ⁴	(NA)	3,770.1	1,811.8	732.0	1,226.2	853.8
2005 ⁴	1 Qtr.	1,310.5	706.5	420.3	237.6	213.6
	2 Qtr.	1,422.2	728.5	450.7	174.4	105.5
	3 Qtr.	1,390.7	1,050.5	662.1	168.4	314.4
	4 Qtr.	1,495.0	1,006.4	726.2	218.8	91.5
2006 ⁴	1 Qtr.	1,652.3	766.2	481.1	224.0	297.2
	2 Qtr.	1,627.9	908.1	451.6	160.7	295.9
	3 Qtr.	1,879.1	1,051.5	460.5	206.5	384.5
	4 Qtr.	(NA)	1,044.2	418.6	303.8	161.6

NA Not available.

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

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

² Includes hotels.

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

⁴ Beginning with 2002 Kauai data available for residential only.

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

Table 9

**ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE
BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED – Continued**
(Percentage Change from the Same Period in Previous Year)

Year	Contracting Tax Base ¹	Private Building Authorization				Government Contracts Awarded
		Total Private Authorizations	Residential ⁴	Commercial & Industrial ²	Additions & Alterations	
1996	4.8	-27.0	-34.7	-31.4	-9.5	80.6
1997	-10.4	5.5	11.4	4.6	-1.5	-30.5
1998	2.4	-10.6	-10.5	-22.3	-2.4	11.3
1999	-0.8	25.2	29.5	49.0	6.1	-14.6
2000 ³	20.8	14.6	27.3	-19.6	21.1	38.7
2001	4.2	4.8	10.3	33.6	-19.8	-11.7
2002 ⁴	13.5	11.8	26.1	-22.8	8.2	7.3
2003 ⁴	6.1	32.8	20.1	99.8	25.6	-17.6
2004 ⁴	8.5	15.9	32.3	-40.3	28.9	118.6
2005 ⁴	14.2	28.1	27.8	43.0	21.9	-47.6
2006 ⁴	(NA)	8.0	-19.8	68.8	53.4	17.8
2005 ⁴	1 Qtr.	14.6	-9.5	-22.5	-54.7	-16.8
	2 Qtr.	26.3	1.3	2.3	103.7	-86.9
	3 Qtr.	3.3	75.8	80.9	201.6	68.0
	4 Qtr.	14.4	59.9	73.4	-14.8	-33.0
2006 ⁴	1 Qtr.	26.1	8.4	14.5	25.6	-5.7
	2 Qtr.	14.5	24.7	0.2	55.4	69.6
	3 Qtr.	35.1	0.1	-30.5	-6.2	128.4
	4 Qtr.	(NA)	3.8	-42.3	394.5	47.1
						76.6

NA Not available.

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

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

² Includes hotels.

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

⁴ Beginning in 2002 Kauai data available for residential only.

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

Table 10
ESTIMATED VALUE OF PRIVATE BUILDING
CONSTRUCTION AUTHORIZATIONS, BY COUNTY
(In Thousands of Dollars)

Year	State	% Change	City & County of Honolulu	% Change	Hawaii County	% Change	Kauai County	% Change	Maui County	% Change
1996	1,117,760	-27.0	698,697	-28.8	171,017	-36.0	101,981	29.2	146,065	-28.6
1997	1,179,182	5.5	772,825	10.6	155,776	-8.9	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.6	624,226	-19.2	178,220	14.4	88,196	-9.8	163,638	7.1
1999	1,320,218	25.2	706,358	13.2	243,852	36.8	140,846	59.7	229,162	40.0
2000 ¹	1,512,601	14.6	694,224	-1.7	321,705	31.9	141,313	0.3	355,361	55.1
2001	1,585,739	4.8	682,660	-1.7	380,248	18.2	210,094	48.7	312,738	-12.0
2002 ²	1,772,027	11.7	876,051	28.3	449,600	18.2	172,662	-17.8	273,717	-12.5
2003 ²	2,352,720	32.8	1,109,568	26.7	619,675	38.0	153,242	-11.2	469,277	71.4
2004 ²	2,726,537	15.9	1,320,552	19.0	826,494	33.2	130,660	-14.7	448,830	-4.4
2005 ²	3,491,965	28.1	1,364,029	3.3	1,008,388	22.0	288,132	120.5	831,416	85.2
2006	3,770,051	8.0	1,625,328	19.2	926,019	-8.2	239,294	-16.9	979,412	17.8

¹ Kauai County data for November consist of residential data only.

² Beginning with 2002, Kauai data available for residential only.

Source: County building departments.

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Federal Government Expenditures in Hawaii

According to the most recent data available, 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 State GDP, much of which is defense-related.

According to the U.S. Department of Defense, expenditures on payroll and procurement contracts in Hawaii increased from \$3.2 billion in the federal fiscal year 1994 to \$5.6 billion in federal fiscal year 2005. 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 \$3.6 billion in federal fiscal year 2005. Payroll, however, slipped from 75% of total Hawaii federal defense spending in federal fiscal year 1994 to 64% in federal fiscal year 2005. Procurement contracts accounted for \$0.8 billion or 25% of total defense spending in federal fiscal year 1994, rising to \$2.0 billion, or 36% of the total defense spending in federal fiscal year 2005. Between the federal fiscal years 2004 and 2005, the total military spending rose 8.7% while payroll alone rose 5.3%. Total Department of Defense personnel increased 11.5% from 62,972 in federal fiscal year 2004 to 70,208 in federal fiscal year 2005, mainly due to increases in active duty military personnel.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in 2005 were 6.9% higher than a year earlier. Total military earnings in 2005 increased 8.9% and total federal civilian earnings increased 4.1%.

In 2006, the U.S. Senate approved more than \$209 million in federal funds for 10 military construction projects in Hawaii during the federal fiscal year 2007 that commenced on October 1, 2006. Hawaii is also expected to receive about \$372 million under the Defense Appropriations Bill for federal fiscal year 2007, and with three other defense-related programs still under consideration by Congress, the State could receive as much as \$622 million in military-related spending, excluding day-to-day operations and payroll, during federal fiscal year 2007.

Banks and Other Financial Institutions

As of June 30, 2006, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at \$28.26 billion, a 6.16% increase from June 30, 2005. The five State-chartered banks accounted for \$27.59 billion of such assets.

Transportation

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

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and interisland cargo shipments for the fiscal years 2004, 2005, and 2006 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 239,668 in 2004. Norwegian Cruise Lines ("NCL") currently homeports four cruise ships, the Pride of America, the Pride of Aloha, the Pride of Hawaii, and the Norwegian Wind, providing the State with year-round inter-island service. The construction of a new cruise passenger terminal at Pier 2, Honolulu Harbor, has been completed and is currently utilized by cruise ship vessels.

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 July 2007, starting with one vessel during the first year and a second vessel in the following 18 to 24 months.

The Harbor System, effective June 30, 2007, is comprised of nine harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor and Kalaeloa Barbers Point Harbor on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaumalapau Harbor on the island of Lanai, comprising the Maui District. The Harbors System will end its management of Kewalo Basin on Oahu on June 30, 2007 and operational management will be assumed by its landowner, the Hawaii Community Development Authority.

The State uses nine harbors to facilitate the movement of goods from the mainland, foreign and interisland ports. The number of commercial vessels entering all ports was 8,993 in fiscal year 2004, and 9,714 in fiscal year 2005, and 10,465 in fiscal year 2006.

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 9.0 million short tons in fiscal year 2004, 9.6 million short tons in fiscal year 2005, and 9.8 million short tons in fiscal year 2006. 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's Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

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

According to data from the Airports Council International, HNL is the 57th busiest air terminal in the world, ranking 26th in the United States in total passengers serviced in 2005. In 2005, HNL recorded 330,506 aircraft operations. For the year 2005 there was a 4.2% increase in passengers at HNL to 20,179,634.

Inter-island air travel in Hawaii is primarily 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 Airlines and Hawaiian Airlines have exited from bankruptcy. In June 2006, Mesa Air Group began interisland service as Go! Airlines.

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

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

The following table shows the motor vehicle registrations in the State for the years 2001 and 2006, inclusive.

Table 11
MOTOR VEHICLE REGISTRATION

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

Education

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

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

- a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law and medicine;
- a comprehensive, primarily baccalaureate institution at Hilo, offering professional programs based on a liberal arts foundation and selected graduate degrees;
- an upper division institution at West Oahu, offering liberal arts and selected professional studies; and
- a system of seven open-door community colleges spread across the islands of Kauai, Oahu, Maui and Hawaii, offering quality liberal arts and workforce programs.

In the fall of 2006, 49,990 students attended the University of Hawaii system, 20,357 of them on the Manoa Campus.

State Housing Programs

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and

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

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

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

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APPENDIX B
FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I
SELECTED FINANCIAL INFORMATION
(commences on page B-1)

PART II
GENERAL PURPOSE FINANCIAL STATEMENTS OF THE
STATE OF HAWAII AS OF JUNE 30, 2006 AND
INDEPENDENT AUDITORS' REPORT
(commences on page B-17)

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APPENDIX B
FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I
SELECTED FINANCIAL INFORMATION

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

INFORMATION ABOUT INDEBTEDNESS

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

SUMMARY OF TOTAL INDEBTEDNESS OF THE STATE OF HAWAII

GENERAL OBLIGATION BOND INDEBTEDNESS
As of July 1, 2006

General obligation bonds outstanding	\$4,238,961,396
Less excludable reimbursable general obligation bonds ¹	
Highways.....	\$ 80,884,100
Airports	47,125
University of Hawaii	7,566,993
Parking facilities	818,104
Hawaiian Home Lands.....	<u>1,071,131</u>
Subtotal excludable reimbursable general obligation bonds.....	\$ 90,387,453
Less all general obligation bonds maturing in the current year.....	<u>\$292,484,378</u>
Net general obligation bonds outstanding.....	<u>\$ 382,871,831</u> <u>\$3,856,089,565</u>

REVENUE BOND INDEBTEDNESS²
As of July 1, 2006

Revenue bonds outstanding:

Airports:		
Airports system	\$643,130,000	
Airports special facility.....	<u>37,895,000</u>	\$ 681,025,000
Housing		
Single family mortgage purchase	234,415,000	
Multifamily	<u>141,526,650</u>	365,941,650
Harbors:		
Revenue	176,000,000	176,000,000
Highway:		
Revenue	283,310,000	
Hawaiian Home Lands	7,350,000	
University revenue projects	<u>174,950,000</u>	
Total revenue bonds outstanding.....		<u>\$1,688,576,650</u>

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS³
As of July 1, 2006

Special Purpose Revenue Bonds outstanding:

Health care facilities.....	\$ 613,733,000
Utilities serving the general public.....	717,900,000
Industrial enterprises	18,812,500
Processing enterprises.....	7,700,000
Not-for-profit secondary schools, colleges and university serving the general public.....	<u>25,000,000</u>
Total special purpose revenue bonds outstanding	<u>\$1,383,146,207</u>

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

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

³ All special purpose revenue indebtedness is payable solely from receipts derived from payments by special purpose entities or persons under contract or from any security for such contract or special purpose revenue bonds.

The following table presents a summary of the calculation of the State's constitutional debt limit as of July 1, 2006.

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	2003-2004	2004-2005	2005-2006
Total General Fund revenues exclusive of Grants from the federal government.....	\$3,907,745,914	\$4,486,358,701	\$4,923,971,473
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies.....	13,654,184	14,898,119	20,952,143
Net General Fund revenues.....	<u>\$3,894,091,730</u>	<u>\$4,471,460,582</u>	<u>\$4,904,019,330</u>
Sum of net General Fund revenues for preceding three fiscal years.....	\$13,269,571,642		
Average of preceding three fiscal years	\$4,423,190,547		
18½% of average net General Fund revenues of the three preceding years ended June 30, 2004, 2005, and 2006.....	\$818,290,251 ¹		

¹ The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of July 1, 2006, and on the Bonds, after exclusions permitted by the Constitution, is \$550,695,881 in the fiscal year ending June 30, 2009.

**GENERAL OBLIGATION BONDS OUTSTANDING
AS OF MARCH 1, 2007**

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds¹			
From State Special Funds for			
Highways.....	\$ 69,201,486		
Airports.....	\$ 37,700		
Small Boat Harbors ²	\$ 5,891,410		
Hawaiian Home Lands.....	\$ 921,641		
University of Hawaii	\$ 5,967,050		
Parking Facilities.....	\$ 542,506		
Waiahole Water System ²	\$ 8,067,235		
Convention Center ²	\$ 209,190,536		
Total for Special Funds	\$ 299,819,564		
Total Reimbursable General Obligation Bonds	\$ 299,819,564		7.34 %
Non-Reimbursable General Obligation Bonds			
From State General Funds for various purposes.....	\$3,786,304,755		
Total Non-reimbursable General Obligation Bonds	\$3,786,304,755		92.66%
Total General Obligation Bonds Issued and Outstanding	\$4,086,124,319		100.00%

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

² Not excludable for debt limit purposes.

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SUMMARY OF DEBT SERVICE

As of March 1, 2007

The following table sets forth a summary of the debt service payable on all outstanding general obligation bonded indebtedness of the State of Hawaii as of March 1, 2007 and on the Bonds. Further detail concerning the State's various outstanding general obligation indebtedness is set forth in Appendix D hereto.

Fiscal Year Ending June 30	Total Remaining Principal Amount ¹	Total Principal Payable	Total Interest Payable	Total Debt Service Payable	Less Amounts Reimbursable to General Fund ²	Net Debt Service Payable	Debt Service on Series D ³		
							Total Principal Payable	Total Interest Payable	Total Debt Service Payable
2008	\$ 4,020,549,319	\$ 323,825,308	\$ 224,822,275	\$ 548,647,583	\$ 60,742,332	\$ 487,905,251	\$ -	\$ 16,369,462	\$ 504,274,713
2009	\$ 3,696,742,012	\$ 338,569,472	\$ 210,077,973	\$ 548,647,445	\$ 55,438,303	\$ 493,209,142	\$ -	\$ 16,885,405	\$ 510,094,547
2010	\$ 3,358,154,540	\$ 333,834,540	\$ 178,152,491	\$ 511,987,031	\$ 40,419,192	\$ 471,567,839	\$ -	\$ 16,885,405	\$ 488,453,244
2011	\$ 3,024,320,000	\$ 341,710,000	\$ 148,066,054	\$ 489,776,054	\$ 43,207,746	\$ 446,568,308	\$ 14,010,000	\$ 16,885,405	\$ 477,463,713
2012	\$ 2,682,610,000	\$ 300,965,000	\$ 131,429,408	\$ 432,394,408	\$ 34,557,440	\$ 396,836,968	\$ 14,540,000	\$ 16,358,793	\$ 427,735,761
2013	\$ 2,381,645,000	\$ 314,035,000	\$ 115,816,925	\$ 429,851,925	\$ 31,187,353	\$ 398,664,572	\$ 15,105,000	\$ 15,794,780	\$ 429,564,352
2014	\$ 2,067,610,000	\$ 283,870,000	\$ 99,956,652	\$ 383,826,652	\$ 21,403,230	\$ 362,423,422	\$ 15,795,000	\$ 15,102,680	\$ 393,321,102
2015	\$ 1,783,740,000	\$ 282,520,000	\$ 85,437,012	\$ 367,957,012	\$ 20,417,227	\$ 347,539,785	\$ 16,535,000	\$ 14,360,345	\$ 378,435,130
2016	\$ 1,501,220,000	\$ 213,835,000	\$ 71,555,251	\$ 285,390,251	\$ 13,303,513	\$ 272,086,738	\$ 17,335,000	\$ 13,560,345	\$ 302,982,083
2017	\$ 1,287,385,000	\$ 237,705,000	\$ 60,246,307	\$ 297,951,307	\$ 11,226,184	\$ 286,725,123	\$ 18,100,000	\$ 12,794,745	\$ 317,619,868
2018	\$ 1,049,680,000	\$ 180,265,000	\$ 49,460,492	\$ 229,725,492	\$ 4,866,365	\$ 224,859,127	\$ 18,970,000	\$ 11,929,000	\$ 255,758,127
2019	\$ 869,415,000	\$ 143,005,000	\$ 41,780,603	\$ 184,785,603	\$ 426,158	\$ 184,359,445	\$ 19,915,000	\$ 10,980,500	\$ 215,254,945
2020	\$ 726,410,000	\$ 127,480,000	\$ 34,961,409	\$ 162,441,409	\$ 426,494	\$ 162,014,915	\$ 20,910,000	\$ 9,984,750	\$ 192,909,665
2021	\$ 598,930,000	\$ 135,190,000	\$ 28,387,771	\$ 163,577,771	\$ 426,778	\$ 163,150,993	\$ 21,960,000	\$ 8,939,250	\$ 194,050,243
2022	\$ 463,740,000	\$ 140,995,000	\$ 21,399,183	\$ 162,394,183	\$ 422,774	\$ 161,971,409	\$ 23,055,000	\$ 7,841,250	\$ 192,867,659
2023	\$ 322,745,000	\$ 150,865,000	\$ 14,612,241	\$ 120,477,241	\$ 423,147	\$ 120,054,094	\$ 24,210,000	\$ 6,688,500	\$ 150,952,594
2024	\$ 216,880,000	\$ 102,500,000	\$ 9,408,959	\$ 111,908,959	\$ 424,937	\$ 111,484,022	\$ 25,420,000	\$ 5,478,000	\$ 142,382,022
2025	\$ 114,380,000	\$ 65,900,000	\$ 4,713,728	\$ 70,613,728	\$ 425,635	\$ 70,188,093	\$ 26,690,000	\$ 4,207,000	\$ 101,085,093
2026	\$ 48,480,000	\$ 48,480,000	\$ 1,930,155	\$ 50,410,155	\$ 426,369	\$ 49,983,786	\$ 28,025,000	\$ 2,872,500	\$ 80,881,286
2027	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 29,425,000	\$ 1,471,250	\$ 30,896,250

¹ Remaining principal amount, as of commencement of fiscal year, of all general obligation bonded indebtedness of the State that was outstanding as of March 1, 2007.

² These figures show debt service on outstanding general obligation bonds of the State issued for certain activities, undertakings, improvements and systems of the State where the payment of such debt service from the General Fund is required by statute to be reimbursed to the General Fund from the respective income, revenues or user taxes pertaining to the particular activity, undertaking, improvement or system and regardless of whether excludable under the provisions of the Constitution when determining the power of the State to incur indebtedness. Consequently, the amount of reimbursement to the General Fund in the table above is greater than the excludable reimbursement under the Constitution. For example, of the \$60,742,332 amount reimbursable to the General Fund in the Fiscal Year ending June 30, 2008 only \$19,310,434 is an excludable reimbursement for purposes of the debt limit calculation under the Constitution. See "DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service" in Appendix A for the sources of reimbursement, including taxes.

³ As of the date of delivery thereof.

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

Fiscal Year	Population ¹	General Obligation Bonded Debt ^{2&3}	Less Debt Service Moneys Available ²	Net General Obligation Bonded Debt	Net General Obligation Bonded Debt Per Capita
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; in December 2000, the State executed a second Lease Purchase Agreement for the issuance of \$23,140,000 in COPS, the proceeds of which were used to purchase the No. 1 Capitol District State Office Building in Honolulu, and in December 2006, the State executed a Facility Lease Agreement related to the issuance of \$24,500,000 of COPS, the proceeds of which were used to construct a headquarters office and conference center building for the Department of Hawaiian Homelands in Kapolei. Each building is located on the island of Oahu. The COPS are secured by rental payments payable from lawfully available funds of the State, including the State's General Fund. The rental payments do not constitute an obligation for which the State has levied any form of taxation. The COPS do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State. The State does not anticipate that it will issue COPS during the current fiscal year, and would require legislative authorization to do so.

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

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

Securities in Which State Funds May Be Invested

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

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

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

As of December 31, 2006, 19% of the State's investment portfolio consisted of repurchase agreements with banks, 8% consisted of time certificates with banks, 6% consisted of student loan resource securities with a triple A rating, and 67% 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, 2006, the State earned \$19.2 million on its General Fund investments. This amount represents an average return on investment for the General Fund of 3.82%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 2002 to 2006. 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, 2006, in Part II of Appendix B.

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

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

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

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

(AMOUNTS IN THOUSANDS)

	2002	2003	2004	2005	Preliminary 2006*
ASSETS:					
Cash	\$ 52,567	\$183,955	\$310,117	\$153,227	\$272,209
Advances to other funds.....	—	—	—	—	—
Due from other funds.....	140,900	113,600	135,100	131,168	162,000
Due from Component Units.....	6,000	20,000	20,000	20,000	19,300
Receivables					
Taxes	288,501	283,300	304,900	338,300	333,900
Notes.....	404	386	423	6,324	4,700
Other.....	160	73	71	5,179	6,565
Total receivables.....	289,065	283,759	305,394	349,803	345,165
Investments.....	289,143	46,568	16,585	478,199	719,624
TOTAL ASSETS	\$777,675	\$647,882	\$787,196	\$1,132,397	\$1,518,298
LIABILITIES AND FUND EQUITY					
Liabilities:					
Vouchers payable.....	\$124,465	\$ 69,116	\$99,545	\$85,918	\$157,063
Other accrued liabilities.....	51,160	55,021	55,861	57,899	65,018
Due to other funds.....	79	148	72	184	83
Due to Component Units	11,742	5,769	5,121	9,026	7,965
Deferred revenue.....	11,500	15,000	7,500	13,800	24,600
TOTAL LIABILITIES	\$198,946	\$145,054	\$168,099	\$166,827	\$254,729
FUND EQUITY:					
Reserves:					
Unrealized receivables.....	\$ 522	\$ 400	\$ 435	\$ 6,336	\$4,712
Encumbrances.....	220,501	202,949	208,114	201,362	231,306
Unencumbered allotments	8,929	9,013	9,208	10,802	33,163
Total reserves.....	229,952	212,362	217,757	218,500	269,181
Unreserved fund balance:					
Designated for future expenditures.....	37,670	23,048	19,600	30,701	78,841
Undesignated	311,107	267,418	381,740	716,369	915,547
Total fund equity	578,729	502,828	619,097	965,570	1,263,569
TOTAL LIABILITIES AND FUND EQUITY	\$777,675	\$647,882	\$787,196	\$1,132,398	\$1,518,298

* See Part II of Appendix B, "GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2006 AND INDEPENDENT AUDITORS' REPORT," page 35, for audited June 30, 2006 information.

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

	2001-2002	% of Total	2002-2003	% of Total	2003-2004	% of Total	2004-2005	% of Total	Preliminary 2005-2006 ¹	% of Total
REVENUES:										
General excise tax	\$1,641,008	50.60	\$1,771,629	51.89	\$1,893,916	51.06	\$2,139,798	50.97	\$2,359,316	50.83
Income tax-corporation	33,777	1.04	8,162	0.24	60,653	1.64	90,304	2.15	115,660	2.49
Income tax-individual	1,047,946	32.32	1,042,526	30.53	1,193,688	32.18	1,394,360	33.22	1,548,671	33.37
Service companies tax	93,406	2.88	114,115	3.34	99,505	2.68	108,686	2.59	120,678	2.60
Liquor licenses and taxes	39,091	1.21	41,186	1.21	41,250	1.11	43,737	1.04	45,955	0.99
Tobacco licenses and taxes	64,469	1.99	71,273	2.09	78,383	2.11	84,068	2.00	86,827	1.87
Insurance premiums tax	67,941	2.10	73,240	2.14	78,142	2.11	83,077	1.98	88,068	1.90
Inheritance and estate tax	16,624	0.51	15,524	0.45	9,830	0.27	12,712	0.30	4,017	0.09
Banks & financial corporation tax	4,664	0.14	20,842	0.61	(533)	(0.01)	36,520	0.87	16,324	0.35
Transient accommodations tax ²	27,271	0.84	766	0.02	6,028	0.15	12,689	0.30	16,129	0.35
Conveyance tax	5,621	0.17	6,517	0.20	9,851	0.27	12,585	0.30	20,160	0.43
Total taxes	3,041,818	93.80	3,165,780	92.72	3,470,713	93.57	4,018,536	95.72	4,421,805	95.27
Charges for current service and										
Other revenues										
TOTAL REVENUES	\$3,242,888	100.00	\$3,414,510	100.00	\$3,709,308	100.00	\$4,198,123	100.00	\$4,641,395	100.00
EXPENDITURES:										
General government	\$369,399	11.50	\$332,332	10.04	\$315,781	9.39	\$384,203	10.52	\$366,761	9.20
Public safety	173,544	5.40	187,167	5.66	187,401	5.57	204,390	5.59	222,855	5.59
Conservation of natural resources	27,726	0.86	29,686	0.90	27,151	0.81	26,841	0.73	32,936	0.83
Health	354,626	11.03	361,804	10.93	368,315	10.95	389,985	10.67	455,388	11.42
Welfare	513,656	15.98	528,519	15.97	565,325	16.81	623,599	17.07	652,371	16.37
Education:										
Higher	450,891	14.03	462,453	13.98	459,640	13.67	510,194	13.96	574,836	14.42
Lower and others	1,243,363	38.68	1,328,514	40.15	1,367,845	40.67	1,439,059	39.39	1,593,538	39.98
Culture-recreation	34,537	1.07	35,250	1.07	34,386	1.02	38,485	1.05	40,574	1.02
Urban redevelopment & housing	1,370	0.04	8,347	0.25	8,333	0.25	7,246	0.20	14,486	0.36
Economic development and assistance	45,475	1.41	34,674	1.05	29,332	0.86	29,790	0.82	32,162	0.81
TOTAL EXPENDITURES	\$3,214,587	100.00	\$3,308,746	100.00	\$3,363,509	100.00	\$3,653,792	100.00	\$3,985,907	100.00
OTHER FINANCING SOURCES (USES):										
Transfers in	\$6,652	—	\$149,485	—	15,355	—	68,225	—	11,485	—
Transfers out	(334,244)	—	(349,105)	—	(259,843)	—	(296,458)	—	(386,559)	—
Other	72,600	—	17,955	—	14,958	—	30,375	—	17,585	—
TOTAL OTHER FINANCING SOURCES (USES)	\$ (254,922)	—	\$ (181,665)	—	\$ (229,530)	—	\$ (197,858)	—	\$ (357,489)	—

¹ See Part II of Appendix B, "GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2006 AND INDEPENDENT AUDITORS' REPORT," page 37, for audited June 30, 2006 information.

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

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 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:

	FY05	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.

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

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

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

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

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

General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for the fiscal year ended June 30, 2006, and estimates for the fiscal years ending June 30, 2007 and June 30, 2008.

GENERAL FUND FINANCIAL PLAN 2006-2008 (Millions of Dollars)

	Actual 2006	Estimated 2007	Estimated 2008
Resources			
Tax Revenues ¹	4,425.6	4,700.5	4,983.2
Non-tax Revenues.....	470.9	460.7	477.4
Judicial Branch Revenues.....	28.4	28.7	29.1
Other Revenue			
Sources/Adjustments ²	—	—	(186.8)
Total Resources	4,925.0	5,189.9	5,302.9
Expenditures:			
Executive			
Operating.....	4,581.9	5,063.6	5,382.7
Capital Investment	0.0	269.4	0.0
Total Executive.....	4,581.9	5,333.0	5,382.7
Legislative	30.4	30.6	30.4
Judicial	124.8	134.1	138.3
OHA and Counties	3.2	3.5	2.9
Appropriation Lapses ³	(61.2)	(45.0)	(45.0)
Total Expenditures	4,679.1	5,456.2	5,509.3
Resources over Expenditures.....	245.9	(266.3)	(206.4)
Carry-over Balance	486.4	732.3	466.0
Ending Balance ⁴	732.3	466.0	259.6

¹ Reflects actual fiscal year 2006 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.

⁴ Fund balances do not include any Emergency and Budget Reserve Fund balances (actual 2006: \$53.5 million; estimated 2007: \$61.2 million and estimated 2008: \$73.5 million). See Appendix A "Emergency and Budget Reserve Fund."

Note: Totals may not add due to rounding.

Source: Department of Budget and Finance, February 2007.

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, \$33.3 million carried over from fiscal year 2006 to fiscal year 2007 by the Department of Education did not lapse and was considered to be expended in fiscal year 2006.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ended June 30, 2006, and represent about 90% of the total General Fund revenues. Set forth below are the actual General Fund tax revenues for the fiscal year ended June 30, 2006, and estimated tax revenues for the fiscal years ending June 30, 2007, and June 30, 2008, based on the Council on Revenues' December 2006 projection.

GENERAL FUND TAX REVENUES
(Thousands of Dollars)

	Actual 2005-2006	Estimated 2006-2007	Estimated 2007-2008
General Excise and Use	\$2,355,316	\$2,527,087	\$2,760,790
Income—Individual	1,550,164	1,634,464	1,667,437
Income—Corporation	130,010	134,363	129,768
Public Service Company	120,679	128,732	140,844
Insurance Premiums	88,068	84,595	78,645
Tobacco & Licenses	86,827	88,878	91,144
Liquor & Permits	45,955	47,323	48,489
Banks & Other Financial Corp.	16,324	17,933	19,334
Conveyance	20,720	18,518	29,058
Transient Accommodation	16,378	18,104	17,151
Miscellaneous	4,551	521	523
TOTAL BEFORE ADJUSTMENTS	\$4,434,992	\$4,700,518	\$4,983,183
GROWTH RATE	10.9%	6.0%	6.0%

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Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for the first seven months of fiscal year 2007 and the first seven months of fiscal year 2006, in each case as reported by the State Director of Taxation. The collections from all sources have exceeded \$2.9 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 2007 are up 12.2% over the same period in fiscal year 2006.

	July 1 to January 31	
	2006-2007	2005-2006
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	
	2006-2007	2005-2006
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.

STATE EMPLOYEES' RETIREMENT SYSTEM

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

Employer Contribution Rate

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

Actuarial Valuation as of June 30	Total Calculated Employer Contribution		Funding Period (Years)
	Rate for All Employees (% of total payroll)		
2002	11.38 ¹		27.0
2003	14.55		26.0
2004	13.95 ²		22.6
2005	13.95 ²		25.7
2006	13.95 ²		35.2

¹ Reflects Act 147, SLH 2002, which amended Section 88-122, HRS.

² Reflects Act 181, SLH 2004, which amended Sections 88-105, 88-122, 88-123, 88-124, 88-125 & 88-126, HRS.

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

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

Summary of Actuarial Certification Statement

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

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII Summary of Actuarial Certification as of June 30, 2005 and 2006 (Includes all counties)

ASSETS	2005	2006
Total current assets.....	\$ 8,914,839,263	\$ 9,529,371,264
Present value of future employee contributions.....	394,989,779	997,174,277
Present value of future employer normal cost contributions.....	1,225,316,907	1,247,728,722
Unfunded actuarial accrued liability.....	4,071,149,242	5,132,027,504
Present value of future employer Early Incentive Retirement Program contribution	N/A	N/A
TOTAL ASSETS	<u>\$14,606,295,191</u>	<u>\$16,906,301,767</u>
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	\$ 6,641,643,502	\$ 7,458,446,609
Present value of future benefits to active employees and inactive members.....	7,964,651,689	9,447,855,158
TOTAL LIABILITIES	<u>\$14,606,295,191</u>	<u>\$16,906,301,767</u>

Source: Gabriel, Roeder, Smith & Company.

As of June 30, 2006, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the System amounted to approximately \$5.132 billion. The System's funded ratios-assets divided by the actuarial accrued liability decreased during fiscal year 2006 as shown below:

Funded Ratios

<u>June 30, 2005</u>	<u>June 30, 2006</u>
68.6%	65.0%

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PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2006 AND INDEPENDENT AUDITORS' REPORT

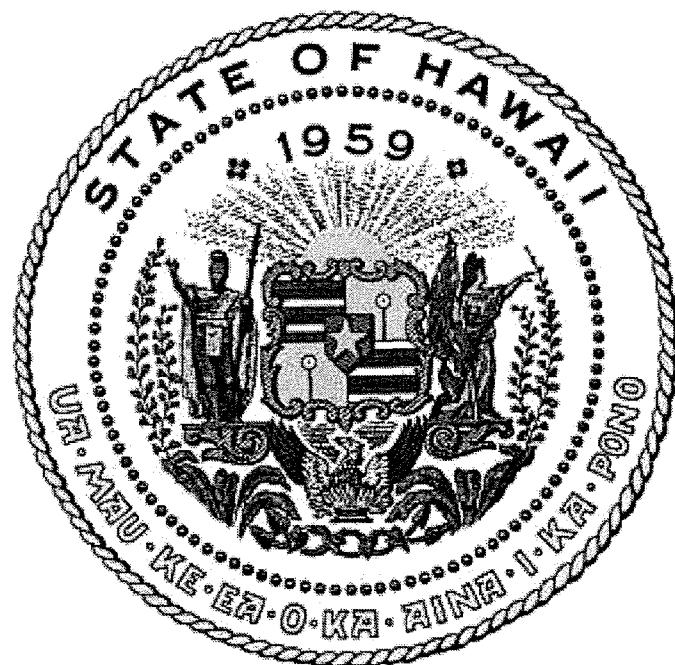
The following information is excerpted from the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006 ("CAFR"). For ease of reference, Part II of Appendix B retains the CAFR's pagination as shown on the immediately following excerpt from the Table of Contents of the CAFR.

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STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006



RUSS K. SAITO

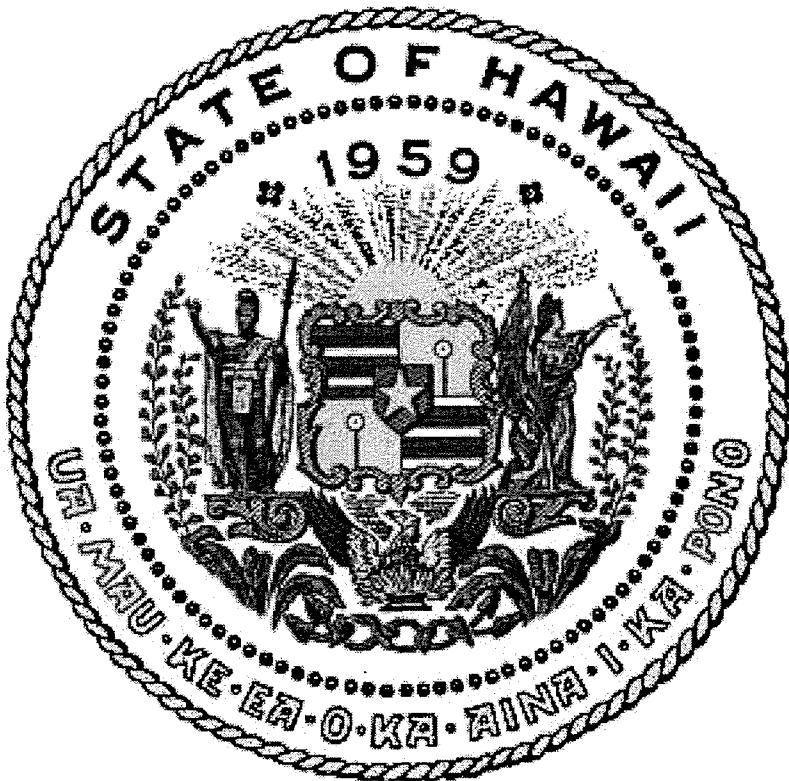
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HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2006



RUSS K. SAITO
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

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STATE OF HAWAII

Comprehensive Annual Financial Report

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Comprehensive Annual Financial Report

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PART II: FINANCIAL SECTION

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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, 2006, 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 84% and 68%, 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, 2006, 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 March 13, 2007 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 30 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

March 13, 2007

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 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, 2006. 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, 2006 by \$8.9 billion (net assets). Of this amount, \$2.4 billion (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors. Net assets of governmental activities decreased by \$77.7 million and net assets of business-type activities increased by \$178.6 million for a net increase to the State of \$100.8 million from the prior fiscal year.

Fund Highlights

At June 30, 2006, the State's Governmental Funds reported combined ending fund balances of \$2.9 billion, an increase of \$334.3 million from the prior fiscal year. Of this amount, \$773.5 million, or 26.9%, of total fund balances are available for spending at the State's discretion (unreserved fund balance) and the remaining \$2.1 billion represent amounts reserved for specific purposes. The Proprietary Funds reported net assets at June 30, 2006 of \$2.6 billion, an increase of \$178.6 million during the fiscal year.

Long-Term Liabilities

The State's long-term liabilities decreased during the current fiscal year to \$6.1 billion, a decrease of \$2.3 million. During fiscal 2006, the State issued \$350.0 million in general obligation bonds for the purpose of financing the Hawaiian Home Lands Trust settlement and public improvement projects.

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2006

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

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2006

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 – 99 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.

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2006

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 \$8.9 billion as of June 30, 2006, and increased \$100.8 million, or 1.1%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by \$77.7 million, or 1.2%, and business-type activities had an increase of \$178.6 million, or 7.3%. The following table was derived from the government-wide statement of net assets.

Summary Schedule of Net Assets

June 30, 2006 and 2005

(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets:						
Current and other assets	\$ 3,283,092	\$ 2,848,673	\$ 1,682,585	\$ 1,584,894	\$ 4,965,677	\$ 4,433,567
Capital assets, net	8,727,056	9,095,992	2,068,620	2,011,001	10,795,676	11,106,993
Total assets	12,010,148	11,944,665	3,751,205	3,595,895	15,761,353	15,540,560
Liabilities:						
Long-term liabilities	5,153,777	5,121,306	898,990	933,797	6,052,767	6,055,103
Other liabilities	593,396	482,657	212,125	196,687	805,521	679,344
Total liabilities	5,747,173	5,603,963	1,111,115	1,130,484	6,858,288	6,734,447
Net assets:						
Invested in capital assets, net of related debt	3,709,504	4,318,111	1,272,249	1,186,703	4,981,753	5,504,814
Restricted	1,285,902	1,163,684	217,478	189,093	1,503,380	1,352,777
Unrestricted	1,267,569	858,907	1,150,363	1,089,615	2,417,932	1,948,522
Total net assets	\$ 6,262,975	\$ 6,340,702	\$ 2,640,090	\$ 2,465,411	\$ 8,903,065	\$ 8,806,113

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2006

Analysis of Net Assets

By far the largest portion of the State's net assets (\$5.0 billion or 56.0%) 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 (\$1.5 billion or 16.9%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets (\$2.4 billion or 27.1%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2006, 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 \$100.8 million, or 1.1%, during the fiscal year ended June 30, 2006. Approximately 60.2% of the State's total revenues came from taxes, while 26.4% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 11.6% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, and transportation (highways).

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2006

The following financial information was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year.

Summary Schedule of Changes in Net Assets
 For the Fiscal Years Ended June 30, 2006 and 2005
 (Amounts in thousands)

	Primary Government						Total	
	Governmental Activities		Business-Type Activities					
	2006	2005	2006	2005	2006	2005		
Revenues:								
Program revenues:								
Charges for services	\$ 399,616	\$ 355,668	\$ 519,174	\$ 484,164	\$ 918,790	\$ 839,832		
Operating grants and contributions	1,726,217	1,667,492	—	—	1,726,217	1,667,492		
Capital grants and contributions	279,323	143,183	81,145	35,048	360,468	178,231		
General revenues:								
Taxes	4,755,131	4,321,167	—	—	4,755,131	4,321,167		
Interest and investment income	99,546	64,236	40,122	27,784	139,668	92,020		
Other	—	(2,847)	—	(297)	—	(3,144)		
Total revenues	<u>7,259,833</u>	<u>6,548,899</u>	<u>640,441</u>	<u>546,699</u>	<u>7,900,274</u>	<u>7,095,598</u>		
Expenses:								
General government	455,008	494,174	—	—	455,008	494,174		
Public safety	336,362	248,685	—	—	336,362	248,685		
Highways	646,336	282,339	—	—	646,336	282,339		
Conservation of natural resources	76,490	79,545	—	—	76,490	79,545		
Health	690,265	561,155	—	—	690,265	561,155		
Welfare	1,709,526	1,615,721	—	—	1,709,526	1,615,721		
Lower education	2,151,891	1,758,596	—	—	2,151,891	1,758,596		
Higher education	678,338	559,379	—	—	678,338	559,379		
Other education	19,183	19,667	—	—	19,183	19,667		
Culture and recreation	98,121	72,920	—	—	98,121	72,920		
Urban redevelopment and housing	87,789	53,077	—	—	87,789	53,077		
Economic development and assistance	215,578	214,842	—	—	215,578	214,842		
Interest expense	172,673	169,738	—	—	172,673	169,738		
Airports	—	—	292,086	273,949	292,086	273,949		
Harbors	—	—	61,408	64,568	61,408	64,568		
Unemployment compensation	—	—	105,786	112,329	105,786	112,329		
Nonmajor proprietary fund	—	—	2,587	2,883	2,587	2,883		
Total expenses	<u>7,337,560</u>	<u>6,129,838</u>	<u>461,867</u>	<u>453,729</u>	<u>7,799,427</u>	<u>6,583,567</u>		
Change in net assets	<u>(77,727)</u>	<u>419,061</u>	<u>178,574</u>	<u>92,970</u>	<u>100,847</u>	<u>512,031</u>		
Net assets – beginning, as previously reported	6,340,702	5,921,641	2,465,411	2,372,441	8,806,113	8,294,082		
Adjustments	—	—	(3,895)	—	(3,895)	—		
Net assets – beginning, as restated	<u>6,340,702</u>	<u>5,921,641</u>	<u>2,461,516</u>	<u>2,372,441</u>	<u>8,802,218</u>	<u>8,294,082</u>		
Net assets – ending	<u>\$ 6,262,975</u>	<u>\$ 6,340,702</u>	<u>\$ 2,640,090</u>	<u>\$ 2,465,411</u>	<u>\$ 8,903,065</u>	<u>\$ 8,806,113</u>		

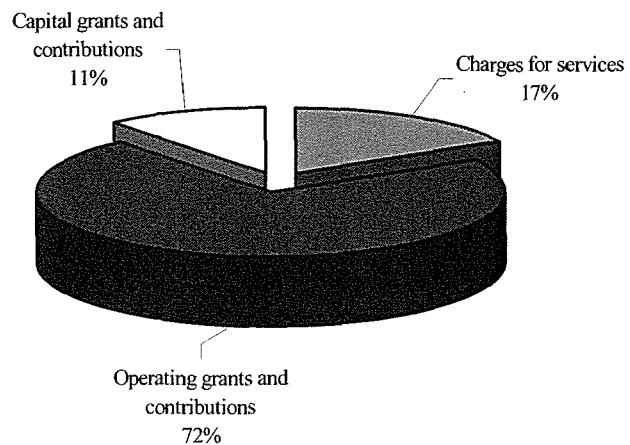
STATE OF HAWAII

Management's Discussion and Analysis

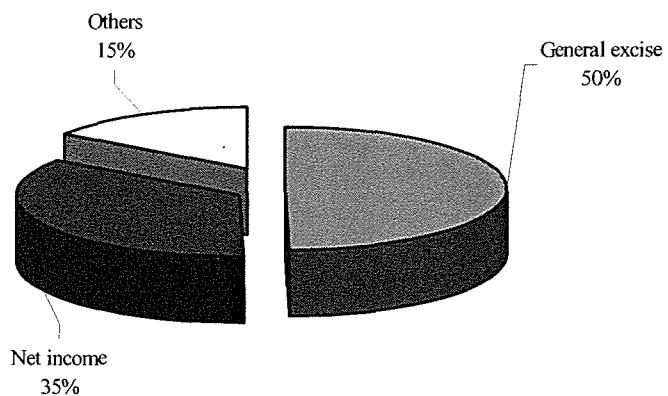
June 30, 2006

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

Program Revenues by Source – Governmental Activities Fiscal Year Ended June 30, 2006



Tax Revenues by Source – Governmental Activities Fiscal Year Ended June 30, 2006



STATE OF HAWAII

Management's Discussion and Analysis

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Analysis of Changes in Net Assets

The State's net assets increased by \$100.8 million during the current fiscal year. This increase is explained in the governmental and business-type activities discussion below, and is primarily due to increases in the net assets of Airports and the Unemployment Compensation Fund of \$74.6 million and \$75.4 million, respectively.

Governmental Activities

Governmental activities decreased the State's net assets by \$77.7 million. The key elements of this decrease are a result of higher expenses for lower and higher education, highways, and health.

	Governmental Activities (Amounts in thousands)	
	2006	2005
General revenues:		
Taxes	\$ 4,755,131	\$ 4,321,167
Interest and investment income and other	99,546	61,389
Total general revenues	<u>4,854,677</u>	<u>4,382,556</u>
Expenses, net of program revenues:		
General government	256,302	290,942
Public safety	266,014	177,590
Highways	527,221	137,205
Conservation of natural resources	18,401	20,381
Health	405,508	305,389
Welfare	631,621	626,280
Lower education	1,899,849	1,487,166
Higher education	678,338	559,379
Other education	14,174	19,451
Culture and recreation	88,261	62,484
Urban redevelopment and housing	(136,591)	(5,362)
Economic development and assistance	110,633	112,852
Interest expense	<u>172,673</u>	<u>169,738</u>
Total governmental activities expenses, net of program revenues	<u>4,932,404</u>	<u>3,963,495</u>
Increase (decrease) in governmental activities net assets	<u>\$ (77,727)</u>	<u>\$ 419,061</u>

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2006

Tax revenues increased by \$434.0 million, or 10.0%, from the previous fiscal year. The increase was primarily due to increases in general excise taxes of \$213.7 million and in individual and corporate income taxes of \$184.2 million. The increase in tax revenues reflects the State's economic resurgence in tourism, construction, and real estate.

Public safety net expenses increased by \$88.4 million, or 49.8%, from the previous fiscal year due to an increase in costs to operate correctional facilities, which includes the costs to house additional inmates in mainland facilities, subsidies paid to the counties, and a decrease in the capitalization of capital project costs.

Highways net expenses increased by \$390.0 million, or 284.3%, from the previous fiscal year due to an increase in depreciation expense of \$56.5 million, a decrease in capitalization of capital project costs of \$323.3 million, and a decrease in capital contributions of \$22.5 million.

Health net expenses increased by \$100.1 million, or 32.8%, from the previous fiscal year due to an increase in expenditures for medical services programs.

Lower education net expenses increased by \$412.7 million, or 27.7%, from the previous fiscal year due to an increase of \$202.4 million for school-based budgeting programs, a decrease in capitalization of capital project costs of \$199.0 million, and a decrease of \$22.3 million in operating grants and contributions.

Higher education net expenses increased by \$119.0 million, or 21.3%, from the previous fiscal year due primarily to the increase in expenses for the University of Hawaii's operating budget.

Urban redevelopment and housing net expenses decreased by \$131.2 million, or 2,447.4%, from the previous fiscal year due to an increase of \$158.7 million in capital contributions.

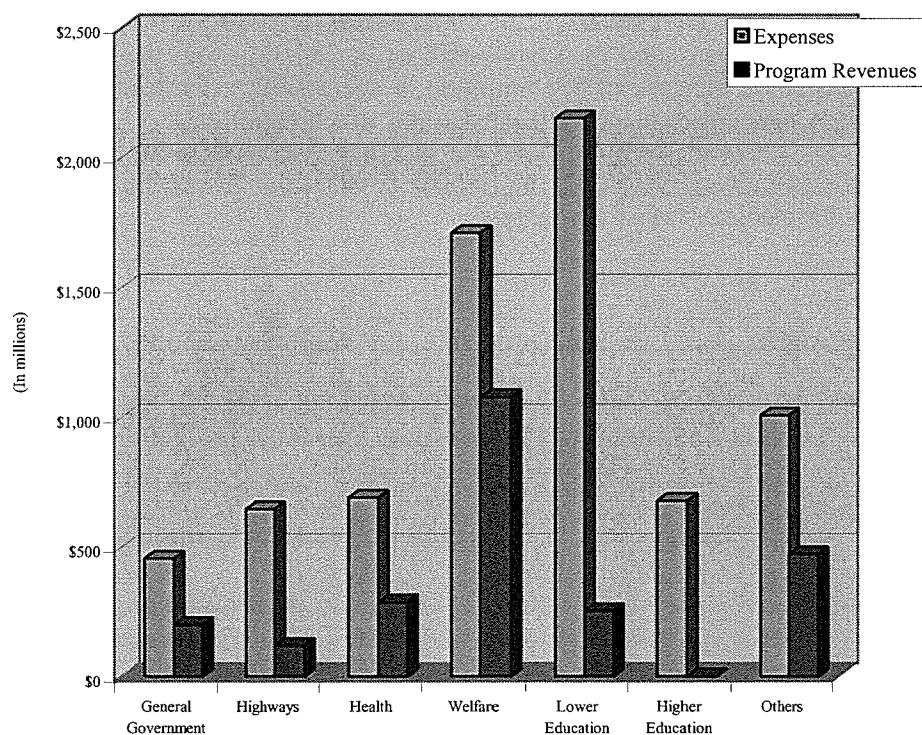
STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2006

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, 2006



STATE OF HAWAII

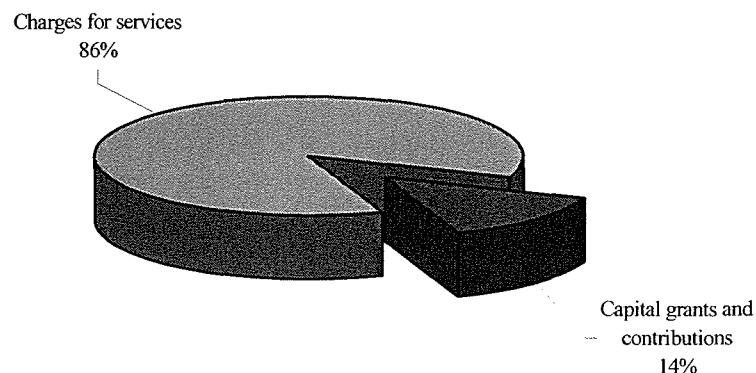
Management's Discussion and Analysis

June 30, 2006

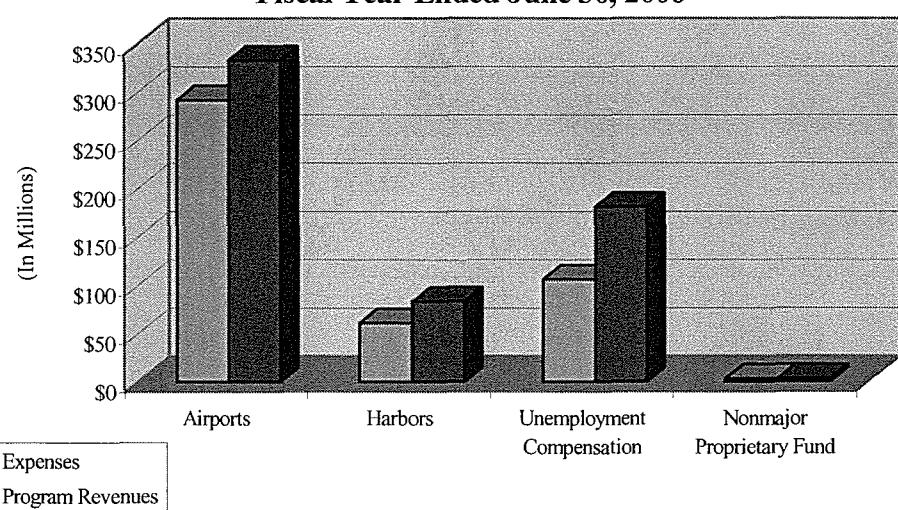
Business-Type Activities

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, 2006



Expenses and Program Revenues – Business-Type Activities Fiscal Year Ended June 30, 2006



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Management's Discussion and Analysis

June 30, 2006

Business-type activities increased the State's net assets by \$178.6 million, or 7.3%, during the current fiscal year. Key elements of this increase are as follows:

- Airport's net assets increased \$74.6 million during the fiscal year ended June 30, 2006. The increase was primarily due to an increase of interest income of \$10.9 million and an increase in capital contributions of \$40.1 million.
- Harbor's net assets increased \$28.1 million compared to an increase of \$15.0 million in the previous fiscal year. The increase was primarily attributed to an increase in operating and nonoperating revenues of \$10.1 million and a reduction in operating and nonoperating expenses of \$3.3 million.
- The Unemployment Compensation Fund's net assets increased \$75.4 million because of an increase in unemployment tax revenues and lower unemployment benefits paid due to Hawaii's low unemployment rate.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2006 and 2005 are as follows:

	Business-Type Activities (Amounts in thousands)											
	Program Revenues											
	Operating/Capital				Total				Program Revenues			
	Charges for Services	2006	2005	Grants and Contributions	2006	2005	2006	2005	Expenses	2006	2005	Net of Expenses
Airports	\$ 251,678	\$ 241,326	\$ 81,023	\$ 34,663	\$ 332,701	\$ 275,989	\$ 292,086	\$ 273,949	\$ 40,615	\$ 2,040		
Harbors	83,217	74,526	122	385	83,339	74,911	61,408	64,568	21,931	10,343		
Unemployment compensation	181,146	165,337	—	—	181,146	165,337	105,786	112,329	75,360	53,008		
Nonmajor proprietary fund	3,133	2,975	—	—	3,133	2,975	2,587	2,883	546	92		
Total	\$ 519,174	\$ 484,164	\$ 81,145	\$ 35,048	\$ 600,319	\$ 519,212	\$ 461,867	\$ 453,729	\$ 138,452	\$ 65,483		

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 \$2.9 billion, an increase of \$334.3 million over the prior fiscal year. Approximately \$773.5 million, or 26.9%, 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

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Management's Discussion and Analysis

June 30, 2006

indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use (\$1.6 billion), (2) for notes and loan receivable, advances, and investments (\$224.9 million), (3) for federal aid highway projects encumbrances (\$220.3 million), or (4) for a variety of other restricted purposes (\$40.4 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 \$1.0 billion, an increase of \$268.2 million, or 36.0%, over the prior fiscal year, and the reserved fund balance was \$249.6 million, an increase of \$29.8 million, or 13.5%, 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 25.4% of total General Fund expenditures, an increase of 5.0% over the prior fiscal year, while total fund balance represents 31.7% of that same amount, an increase of 5.3% over the prior fiscal year.

The fund balance of the State's General Fund increased by \$298.0 million during the current fiscal year, which was due primarily to an increase in tax revenues. The fund balance of the State's Capital Projects Fund decreased by \$81.4 million during the current fiscal year. Because of adequate cash reserves, the State issued \$100 million less general obligation bonds this fiscal year, which was the primary reason for the decrease in fund balance. The fund balance of the State's other nonmajor Governmental Funds increased by \$117.8 million during the current fiscal year. The increase was due to increases in the collections of the deposit beverage container fee of \$25.6 million, the conveyance tax of \$13.7 million, and the transient accommodations tax of \$10.0 million. Decreases in transfers to the General Fund of \$56.7 million and to the Capital Projects Fund of \$29.6 million, also contributed to the increase in fund balance.

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 \$74.6 million, Harbors had an increase in net assets of \$28.1 million, and the Unemployment Compensation Fund had an increase in net assets of \$75.4 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 \$181.8 million, representing an increase of \$6.5 million in total net assets since June 30, 2005.

General Fund Budgetary Highlights

The General Fund revenues were \$101.3 million, or 2.1%, more than the final budget. The increase was primarily attributed to higher individual net income taxes and charges for current services of \$40.7 million and \$13.0 million, respectively.

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Management's Discussion and Analysis

June 30, 2006

The General Fund expenditure budget increased by \$193.4 million from the original to the final budget. Most of the increase is due to the original budget consisting only of the appropriations contained in the general appropriation acts of the executive and judicial branches. Amounts that were not part of this original budget include: \$70.6 million in employees' salary adjustments, \$28.5 million for the State Legislature, \$27.7 million for various health programs, including adult mental health, Title XIX waiver program and pandemic influenza, \$13.5 million in various lower education programs, and \$4.4 million in legislative relief for claims. Also, \$17.5 million to pay the Office of Hawaiian Affairs for the use of public land trust lands were not in the original budget.

The difference between the final budget and actual expenditures on a budgetary basis was \$138.7 million. The positive variance in general government is primarily attributed to \$13.6 million of appropriations made to the State Legislature that can be carried over to the next fiscal year and \$5.2 million appropriated for employees' salary adjustments that lapsed. The positive variance in general government was also due to a reduction in health benefit premiums of approximately \$26.9 million, a premium holiday in December 2005, where employer and employees were not charged for premiums, and lower rates for retirees in January 2006. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over \$33.3 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. The positive variance in higher education resulted when the University of Hawaii carried over \$26.9 million of appropriations to the next fiscal year.

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, 2006 amounted to \$10.8 billion (net of accumulated depreciation of \$6.8 billion), a decrease of \$311.3 million from fiscal 2005. The decrease is due to the current year's depreciation expense in excess of net additions for the year. 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, 2006, included the following:

- \$93.1 million of funding for the Kapolei Judiciary Complex in Oahu, Hawaii
- \$11.0 million for Haleakala Highway Widening in Maui
- \$12.6 million for asbestos removal for the Kamamalu Building
- \$184.1 million for various capital improvement projects for public school facilities throughout the State.

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

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2006

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 that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt

June 30, 2006 and 2005

(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
General obligation bonds	\$ 4,322,964	\$ 4,256,633	\$ 137	\$ 167	\$ 4,323,101	\$ 4,256,800
Revenue bonds	306,255	319,305	883,823	918,142	1,190,078	1,237,447
Total	\$ 4,629,219	\$ 4,575,938	\$ 883,960	\$ 918,309	\$ 5,513,179	\$ 5,494,247

The State's total long-term debt increased by \$18.9 million, or 0.3%, during the current fiscal year. The key factor in this increase was the issuance of \$350.0 million in general obligation bonds for financing the Hawaiian Home Lands Trust settlement and public improvement projects.

The State maintained its Aa2 credit rating with Moody's Investors Service and AA- with Standard and Poor's Corporation while Fitch IBCA, Inc. upgraded the State's rating to AA from 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, 2006 was \$284.5 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 2.1% for the month of October 2006. One year ago, Hawaii's seasonally adjusted unemployment rate stood at 2.8%, while the seasonally adjusted national unemployment rate was 4.4%.

Cumulative tax collections for the first five months of fiscal 2007 exceeded \$2.1 billion or \$64.1 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 10.0% in the same period.

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2006

The Council on Revenues in September 2006 estimated that the General Fund growth rate would be 6.0% in fiscal 2007 and fiscal 2008. Actual General Fund tax collections rose by 3.8% in the first five months of fiscal 2007 over the corresponding 2006 period. However, adjusting for a large one-time corporate net income tax collection of \$40 million in September 2005, fiscal year-to-date General Fund tax collections would have grown by 6.1% over last year. Higher general excise and use tax collections and the substantial rise in corporate net income tax collections were the primary factors underlying this strong performance. In November 2006, the Council on Revenues forecast Hawaii's growth at 6.0% in 2007 total personal income.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

STATE OF HAWAII
Statement of Net Assets

June 30, 2006
(Amounts in thousands)

<u>ASSETS</u>	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Cash and short-term investments (note 3)	\$ 621,600	\$ 1,221,521	\$ 1,843,121	\$ 395,958
Receivables:				
Taxes	345,600	41,400	387,000	—
Accounts and accrued interest, net	32,766	21,725	54,491	152,931
Notes, loans, mortgages, and contributions, net (note 10)	224,929	2,443	227,372	102,042
Federal government	72,100	2,314	74,414	4,491
Other, net (note 12)	35,832	987	36,819	26,334
Internal balances (note 8)	8,517	(8,517)	—	—
Due from Component Units (note 8)	19,300	—	19,300	—
Due from Primary Government (note 8)	—	—	—	7,965
Investments (note 3)	1,844,747	—	1,844,747	593,635
Inventories:				
Developments in progress and dwelling units	—	—	—	20,916
Materials and supplies	—	486	486	22,642
Net investment in financing lease	—	—	—	16,363
Restricted assets (notes 3, 6, and 10)	—	390,916	390,916	347,791
Other assets:				
Prepaid expenses	—	24	24	24,151
Bond issue and deferred costs, net	77,700	6,155	83,855	2,363
Promissory note receivable (note 10)	—	3,131	3,131	—
Other	1	—	1	—
Capital assets (notes 4, 5, 6, 10, and 14):				
Land and land improvements	2,308,543	571,276	2,879,819	63,385
Infrastructure	7,926,740	—	7,926,740	50,900
Construction in progress	602,823	182,122	784,945	198,299
Buildings, improvements, and equipment	3,224,933	2,750,514	5,975,447	2,556,743
Accumulated depreciation	(5,335,983)	(1,435,292)	(6,771,275)	(1,238,928)
Total Capital Assets, Net	8,727,056	2,068,620	10,795,676	1,630,399
Total Assets	\$ 12,010,148	\$ 3,751,205	\$ 15,761,353	\$ 3,347,981

See accompanying notes to basic financial statements.

<u>LIABILITIES</u>	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
Vouchers and contracts payable	\$ 181,259	\$ 82,059	\$ 263,318	\$ 96,442
Other accrued liabilities	73,874	85,103	158,977	104,460
Prepaid airport use charge fund (note 10)	—	3,727	3,727	—
Due to Component Units (note 8)	7,965	—	7,965	—
Due to Primary Government (note 8)	—	—	—	19,300
Due to federal government	—	—	—	22
Deferred revenue	—	2,746	2,746	27,911
Estimated future costs of land sold	—	—	—	30,017
Unamortized bond premium	230,600	—	230,600	—
Contracts payable, accrued interest, and other	—	38,490	38,490	—
Matured bonds and interest payable	99,698	—	99,698	—
Other	—	—	—	19,705
Long-term liabilities:				
Due within one year:				
Payable from restricted assets:				
Revenue bonds payable, net (notes 6, 7, and 14)	—	40,502	40,502	—
General obligation bonds payable (notes 5 and 7)	—	90	90	—
General obligation bonds payable (notes 5 and 7)	307,085	9	307,094	2,935
Notes, mortgages, and installment contracts payable	—	—	—	1,118
Accrued vacation and retirement benefits payable (note 7)	59,944	2,899	62,843	20,968
Revenue bonds payable, net (notes 6, 7, and 14)	15,595	—	15,595	13,286
Reserve for losses and loss adjustment costs (notes 7 and 13)	55,900	1,049	56,949	23,067
Claims and judgments payable (notes 7 and 12)	30,000	—	30,000	—
Capital lease obligations (notes 7 and 10)	3,445	—	3,445	8,521
Deferred commitment fees	—	—	—	567
Due in more than one year:				
General obligation bonds payable (notes 5 and 7)	4,015,879	38	4,015,917	4,632
Notes, mortgages, and installment contracts payable	—	—	—	17,714
Accrued vacation and retirement benefits payable (note 7)	125,079	6,618	131,697	59,464
Revenue bonds payable, net (notes 6, 7, and 14)	290,660	843,321	1,133,981	535,596
Reserve for losses and loss adjustment costs (notes 7 and 13)	21,600	3,511	25,111	8,429
Claims and judgments payable (notes 7 and 12)	174,000	—	174,000	—
Capital lease obligations (notes 7 and 10)	54,590	—	54,590	46,510
Deferred commitment fees	—	—	—	1,765
Other	—	953	953	—
Total Liabilities	<u>5,747,173</u>	<u>1,111,115</u>	<u>6,858,288</u>	<u>1,042,429</u>
 <u>NET ASSETS</u>				
Invested in capital assets, net of related debt	3,709,504	1,272,249	4,981,753	1,297,950
Restricted for:				
Capital maintenance projects	253,850	—	253,850	—
Health and welfare	438,038	—	438,038	—
Natural resources	109,227	—	109,227	—
Hawaiian programs	95,220	—	95,220	—
Budget stabilization	48,611	—	48,611	—
Other purposes	340,956	—	340,956	—
Bond requirements and other	—	217,478	217,478	591,396
Unrestricted	<u>1,267,569</u>	<u>1,150,363</u>	<u>2,417,932</u>	<u>416,206</u>
Total Net Assets	<u>\$ 6,262,975</u>	<u>\$ 2,640,090</u>	<u>\$ 8,903,065</u>	<u>\$ 2,305,552</u>

STATE OF HAWAII

Statement of Activities

For the Fiscal Year Ended June 30, 2006

(Amounts in thousands)

FUNCTIONS/PROGRAMS	Program Revenues					Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total		
Primary Government:									
Governmental Activities:									
General government	\$ 455,008	\$ 136,113	\$ 62,593	\$ —	\$ (256,302)	\$ —	\$ (256,302)		
Public safety	336,362	29,700	40,648	—	(266,014)	—	(266,014)		
Highways	646,336	4,832	38,896	75,387	(527,221)	—	(527,221)		
Conservation of natural resources	76,490	26,086	32,003	—	(18,401)	—	(18,401)		
Health	690,265	132,360	152,397	—	(405,508)	—	(405,508)		
Welfare	1,709,526	1,421	1,076,484	—	(631,621)	—	(631,621)		
Lower education	2,151,891	35,164	216,878	—	(1,899,849)	—	(1,899,849)		
Higher education	678,338	—	—	—	(678,338)	—	(678,338)		
Other education	19,183	1	5,008	—	(14,174)	—	(14,174)		
Culture and recreation	98,121	7,406	2,454	—	(88,261)	—	(88,261)		
Urban redevelopment and housing	87,789	2	20,442	203,936	136,591	—	136,591		
Economic development and assistance	215,578	26,531	78,414	—	(110,633)	—	(110,633)		
Interest expense	172,673	—	—	—	(172,673)	—	(172,673)		
Total Governmental Activities	<u>7,337,560</u>	<u>399,616</u>	<u>1,726,217</u>	<u>279,323</u>	<u>(4,932,404)</u>	<u>—</u>	<u>(4,932,404)</u>		
Business-Type Activities:									
Airports	292,086	251,678	—	81,023	—	40,615	40,615		
Harbors	61,408	83,217	—	122	—	21,931	21,931		
Unemployment compensation	105,786	181,146	—	—	—	75,360	75,360		
Nonmajor proprietary fund	2,587	3,133	—	—	—	546	546		
Total Business-Type Activities	<u>461,867</u>	<u>519,174</u>	<u>—</u>	<u>81,145</u>	<u>—</u>	<u>138,452</u>	<u>138,452</u>		
Total Primary Government	<u>\$ 7,799,427</u>	<u>\$ 918,790</u>	<u>\$ 1,726,217</u>	<u>\$ 360,468</u>	<u>\$ (4,932,404)</u>	<u>138,452</u>	<u>(4,793,952)</u>		
Component Units:									
University of Hawaii	\$ 1,102,802	\$ 231,683	\$ 347,165	\$ 36,472				\$ (487,482)	
Housing and Community Development Corporation of Hawaii	148,833	72,265	73,408	14,625				11,465	
Hawaii Health Systems Corporation	393,504	352,772	261	26,116				(14,355)	
Hawaii Hurricane Relief Fund	177	—	—	—				(177)	
Total Component Units	<u>\$ 1,645,316</u>	<u>\$ 656,720</u>	<u>\$ 420,834</u>	<u>\$ 77,213</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(490,549)</u>	
General Revenues:									
Taxes:									
General excise tax					2,359,316	—	2,359,316		
Net income tax – corporations and individuals					1,675,131	—	1,675,131		
Public service companies tax					120,678	—	120,678		
Transient accommodations tax					124,133	—	124,133		
Tobacco and liquor taxes					134,216	—	134,216		
Liquid fuel tax					84,719	—	84,719		
Tax on premiums of insurance companies					89,778	—	89,778		
Vehicle weight and registration tax					56,101	—	56,101		
Rental motor/tour vehicle surcharge tax					45,885	—	45,885		
Franchise tax					18,324	—	18,324		
Public service companies tax					46,850	—	46,850		
Interest and investment income					99,546	40,122	139,668	33,009	
Payments from the State, net					—	—	—	623,061	
Other					—	—	—	(2,956)	
Total General Revenues					<u>4,854,677</u>	<u>40,122</u>	<u>4,894,799</u>	<u>653,114</u>	
Change in Net Assets					<u>(77,727)</u>	<u>178,574</u>	<u>100,847</u>	<u>162,565</u>	
Net Assets – Beginning, as previously reported					<u>6,340,702</u>	<u>2,465,411</u>	<u>8,806,113</u>	<u>2,142,987</u>	
Adjustments (note 1)					<u>—</u>	<u>(3,895)</u>	<u>(3,895)</u>	<u>—</u>	
Net Assets – Beginning, as restated					<u>6,340,702</u>	<u>2,461,516</u>	<u>8,802,218</u>	<u>2,142,987</u>	
Net Assets – Ending					<u>\$ 6,262,975</u>	<u>\$ 2,640,090</u>	<u>\$ 8,903,065</u>	<u>\$ 2,305,552</u>	

See accompanying notes to basic financial statements.

STATE OF HAWAII

Governmental Funds Balance Sheet

June 30, 2006

(Amounts in thousands)

ASSETS	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and short-term investments (note 3)	\$ 272,209	\$ 11,280	\$ 338,111	\$ 621,600
Receivables:				
Taxes	333,900	—	11,700	345,600
Accrued interest	4,986	—	4,247	9,233
Notes and loans, net	4,700	—	220,229	224,929
Federal government	—	—	72,100	72,100
Other	1,579	—	15,153	16,732
Due from other funds (note 8)	162,000	—	83	162,083
Due from Proprietary Funds (note 8)	—	8,517	—	8,517
Due from Component Units (note 8)	19,300	—	—	19,300
Investments (note 3)	719,624	275,000	850,123	1,844,747
Other assets	—	—	1	1
Total Assets	\$ 1,518,298	\$ 294,797	\$ 1,511,747	\$ 3,324,842
LIABILITIES AND FUND BALANCES				
Liabilities:				
Vouchers and contracts payable	\$ 157,063	\$ 10,019	\$ 14,177	\$ 181,259
Other accrued liabilities	65,018	—	8,856	73,874
Due to other funds (note 8)	83	89,900	72,100	162,083
Due to Component Units (note 8)	7,965	—	—	7,965
Payable from restricted assets – matured bonds and interest payable	—	—	798	798
Deferred revenue	24,600	—	—	24,600
Total Liabilities	254,729	99,919	95,931	450,579
Fund Balances:				
Reserved for:				
Continuing appropriations	244,869	852,707	517,546	1,615,122
Receivables and advances	4,712	—	220,229	224,941
Federal aid highway projects encumbrances	—	220,335	—	220,335
Bond redemption and other	—	—	40,377	40,377
Unreserved for major funds:				
Designated for future expenditures	78,841	—	—	78,841
Undesignated	935,147	(878,164)	—	56,983
Unreserved for nonmajor Special Revenue Funds:				
Designated for future expenditures	—	—	277,262	277,262
Undesignated	—	—	360,402	360,402
Total Fund Balances	1,263,569	194,878	1,415,816	2,874,263
Total Liabilities and Fund Balances	\$ 1,518,298	\$ 294,797	\$ 1,511,747	\$ 3,324,842

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, 2006

(Amounts in thousands)

Total Fund Balance – Governmental Funds	\$ 2,874,263
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	\$ 2,308,543
Infrastructure	7,926,740
Construction in progress	602,823
Buildings, improvements, and equipment	3,224,933
Accumulated depreciation	<u>(5,335,983)</u>
	8,727,056
Accrued interest and other payables are not recognized in governmental funds.	(329,500)
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.	144,933
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	(4,322,964)
Accrued vacation payable	(185,023)
Revenue bonds payable	(306,255)
Reserve for losses and loss adjustment costs	(77,500)
Claims and judgments payable	(204,000)
Capital lease obligations	<u>(58,035)</u>
	(5,153,777)
Net Assets of Governmental Activities	<u>\$ 6,262,975</u>

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, 2006

(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
General excise tax	\$ 2,359,316	\$ —	\$ —	\$ 2,359,316
Net income tax – corporations and individuals	1,664,331	—	—	1,664,331
Public service companies tax	120,678	—	—	120,678
Transient accommodations tax	16,129	—	108,004	124,133
Tobacco and liquor taxes	132,782	—	1,434	134,216
Liquid fuel tax	—	—	84,719	84,719
Tax on premiums of insurance companies	88,068	—	1,710	89,778
Vehicle weight and registration tax	—	—	56,101	56,101
Rental motor/tour vehicle surcharge tax	—	—	48,092	48,092
Franchise tax	16,324	—	2,000	18,324
Other	24,177	—	22,673	46,850
Total Taxes	4,421,805	—	324,733	4,746,538
Interest and investment income	41,865	—	40,148	82,013
Charges for current services	95,841	—	247,583	343,424
Intergovernmental				
Rentals	7,952	—	1,593,053	1,601,005
Fines, forfeitures, and penalties	80	—	32,413	32,493
Licenses and fees	19,677	—	7,150	26,827
Revenues from private sources	1,284	—	28,080	29,364
Other	4,130	—	35,517	39,647
Total Revenues	48,761	—	79,522	128,283
	4,641,395	—	2,388,199	7,029,594
Expenditures:				
Current:				
General government	366,761	82,215	44,325	493,301
Public safety	222,855	3,418	96,305	322,578
Highways	—	103,019	164,194	267,213
Conservation of natural resources	32,936	7,562	46,130	86,628
Health	455,388	5,725	224,566	685,679
Welfare	652,371	2,627	1,054,812	1,709,810
Lower education	1,588,824	144,428	250,877	1,984,129
Higher education	574,836	103,502	—	678,338
Other education	4,714	2,171	12,298	19,183
Culture and recreation	40,574	14,429	32,475	87,478
Urban redevelopment and housing	14,486	30,000	16,239	60,725
Economic development and assistance	32,162	20,510	162,887	215,559
Other	—	—	4,634	4,634
Debt service	—	—	447,577	447,577
Total Expenditures	3,985,907	519,606	2,557,319	7,062,832
Excess (Deficiency) of Revenues over Expenditures	655,488	(519,606)	(169,120)	(33,238)
Other Financing Sources (Uses):				
Issuance of general obligation and refunding general obligation bonds – par (notes 5 and 7)	—	350,000	—	350,000
Issuance of general obligation and refunding general obligation bonds – premium (notes 5 and 7)	17,585	—	—	17,585
Transfers in (note 9)	11,485	94,906	393,264	499,655
Transfers out (note 9)	(386,559)	(6,705)	(106,391)	(499,655)
Total Other Financing Sources (Uses)	(357,489)	438,201	286,873	367,585
Net Change in Fund Balances	297,999	(81,405)	117,753	334,347
Fund Balances – Beginning	965,570	276,283	1,298,063	2,539,916
Fund Balances – Ending	\$ 1,263,569	\$ 194,878	\$ 1,415,816	\$ 2,874,263

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, 2006

(Amounts in thousands)

Total Net Change in Fund Balances – Governmental Funds	\$ 334,347
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay, net of disposals	\$ (579)
Depreciation expense (note 4)	<u>(368,357)</u>
Excess of capital outlay over depreciation expense	(368,936)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bonds issued.	
	(367,585)
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	296,719
Capital lease payments	3,305
Claims and judgment payments	<u>30,000</u>
Total long-term debt repayment	330,024
Revenue timing differences result in greater revenue in the government-wide financial statements.	
	28,733
Bond issue and deferred costs reflected as other financing uses in governmental funds and reported in the statement of net assets, net of amortization.	
	(21,815)
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	(13,200)
Change in accrued vacation payable	(10,895)
Change in reserve for losses and loss adjustment costs	<u>11,600</u>
	(12,495)
Change in Net Assets of Governmental Activities	<u>\$ (77,727)</u>

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, 2006

(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance – Over (Under)
Revenues:				
Taxes:				
General excise tax	\$ 2,130,751	\$ 2,357,522	\$ 2,355,316	\$ (2,206)
Net income tax:				
Corporations	72,606	127,999	129,760	1,761
Individuals	1,375,585	1,509,850	1,550,571	40,721
Inheritance and estate tax	—	—	4,017	4,017
Liquor permits and tax	44,238	45,567	45,954	387
Public service companies tax	123,037	116,941	120,679	3,738
Tobacco tax	84,963	83,700	86,827	3,127
Tax on premiums of insurance companies	78,000	83,000	88,068	5,068
Franchise tax (banks and other financial institutions)	18,558	11,580	16,324	4,744
Transient accommodations tax	16,786	16,462	7,828	(8,634)
Other taxes, primarily conveyances tax	5,670	20,831	20,160	(671)
Total Taxes	<u>3,950,194</u>	<u>4,373,452</u>	<u>4,425,504</u>	<u>52,052</u>
Non-taxes:				
Interest and investment income	19,011	30,654	40,479	9,825
Charges for current services	153,519	163,211	176,248	13,037
Intergovernmental	3,131	5,365	7,952	2,587
Rentals	7,701	5,711	80	(5,631)
Fines, forfeitures, and penalties	20,512	21,186	19,677	(1,509)
Licenses and fees	1,013	998	1,284	286
Revenues from private sources	1,448	2,071	4,130	2,059
Debt service requirements	49,429	47,600	48,768	1,168
Other	136,212	153,765	181,200	27,435
Total Non-taxes	<u>391,976</u>	<u>430,561</u>	<u>479,818</u>	<u>49,257</u>
Total Revenues	<u>4,342,170</u>	<u>4,804,013</u>	<u>4,905,322</u>	<u>101,309</u>
Expenditures:				
General government	626,396	689,448	638,541	(50,907)
Public safety	200,242	221,508	210,528	(10,980)
Conservation of natural resources	55,681	29,522	29,125	(397)
Health	374,804	405,880	399,019	(6,861)
Hospitals	32,280	37,754	37,754	—
Welfare	642,028	640,533	635,754	(4,779)
Lower education	1,769,318	1,805,664	1,772,170	(33,494)
Higher education	591,449	601,271	575,217	(26,054)
Other education	3,859	5,011	4,759	(252)
Culture and recreation	11,818	38,805	38,488	(317)
Urban redevelopment and housing	818	849	679	(170)
Economic development and assistance	26,296	28,386	27,992	(394)
Housing	8,388	13,780	13,673	(107)
Social security and pension contributions	201,896	212,964	211,887	(1,077)
Other	—	7,298	4,390	(2,908)
Total Expenditures	<u>4,545,273</u>	<u>4,738,673</u>	<u>4,599,976</u>	<u>(138,697)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(203,103)</u>	<u>65,340</u>	<u>305,346</u>	<u>240,006</u>
Other Financing Sources:				
Transfers in	12,974	22,109	19,650	(2,459)
Excess (Deficiency) of Revenues and Other Sources over Expenditures	<u>\$ (190,129)</u>	<u>\$ 87,449</u>	<u>\$ 324,996</u>	<u>\$ 237,547</u>

See accompanying notes to basic financial statements.

STATE OF HAWAII
Proprietary Funds
Statement of Net Assets

June 30, 2006

(Amounts in thousands)

ASSETS	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Fund	Total Proprietary Funds
Current Assets:					
Cash and short-term investments (note 3)	\$ 547,470	\$ 104,535	\$ 487,003	\$ 82,513	\$ 1,221,521
Restricted assets – cash and short-term investments (notes 3 and 6)	199,847	74,491	—	—	274,338
Receivables:					
Taxes	—	—	41,400	—	41,400
Accounts and accrued interest (net of allowance for doubtful accounts of \$6,091)	12,801	8,924	—	—	21,725
Promissory note receivable (net of allowance for doubtful accounts of \$8,361) (note 10)	2,109	334	—	—	2,443
Federal government	2,009	305	—	—	2,314
Restricted assets – passenger facility charges	3,178	—	—	—	3,178
Other	773	214	—	—	987
Restricted assets – investments – repurchase agreements and certificates of deposit (notes 3 and 6)	75,251	—	—	—	75,251
Inventory of materials and supplies	255	231	—	—	486
Prepaid expenses and other assets	—	24	—	—	24
Total Current Assets	843,693	189,058	528,403	82,513	1,643,667
Noncurrent Assets:					
Capital assets (notes 4, 6, 10, and 14)					
Land and land improvements	334,920	236,356	—	—	571,276
Construction in progress	116,501	65,621	—	—	182,122
Buildings and improvements	2,096,442	464,481	—	—	2,560,923
Equipment	180,165	9,426	—	—	189,591
Less accumulated depreciation	(1,270,649)	(164,643)	—	—	(1,435,292)
Net Capital Assets	1,457,379	611,241	—	—	2,068,620
Bond issue costs, net	3,786	2,369	—	—	6,155
Promissory note receivable (note 10)	3,131	—	—	—	3,131
Restricted assets – net direct financing leases (note 10)	38,149	—	—	—	38,149
Total Noncurrent Assets	1,502,445	613,610	—	—	2,116,055
Total Assets	\$ 2,346,138	\$ 802,668	\$ 528,403	\$ 82,513	\$ 3,759,722

See accompanying notes to basic financial statements.

<u>LIABILITIES</u>	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Fund	Total Proprietary Funds
Current Liabilities:					
Vouchers and contracts payable	\$ 23,764	\$ 4,941	\$ 52,600	\$ 754	\$ 82,059
Payable from restricted assets – contracts payable, accrued interest, and other	26,087	12,403	—	—	38,490
Other accrued liabilities	4,236	18	—	80,849	85,103
Due to Capital Projects Fund (note 8)	—	8,517	—	—	8,517
Prepaid airport use charge fund	3,727	—	—	—	3,727
Deferred revenue	2,746	—	—	—	2,746
General obligation bonds payable, current portion (notes 5 and 7)	9	—	—	—	9
Payable from restricted assets – general obligation bonds payable (notes 5 and 7)	—	90	—	—	90
Accrued vacation, current portion (note 7)	2,309	590	—	—	2,899
Payable from restricted assets – revenue bonds payable (notes 6, 7, and 14)	31,565	8,937	—	—	40,502
Reserve for losses and loss adjustment costs (note 7)	900	149	—	—	1,049
Total Current Liabilities	95,343	35,645	52,600	81,603	265,191
Noncurrent Liabilities:					
General obligation bonds payable (notes 5 and 7)	38	—	—	—	38
Accrued vacation (note 7)	5,122	1,496	—	—	6,618
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding) (notes 6, 7, and 14)	676,411	166,910	—	—	843,321
Reserve for losses and loss adjustment costs (note 7)	3,200	311	—	—	3,511
Other	953	—	—	—	953
Total Long-Term Liabilities	685,724	168,717	—	—	854,441
Total Liabilities	781,067	204,362	52,600	81,603	1,119,632
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	834,486	437,763	—	—	1,272,249
Restricted for bond requirements and other	206,580	10,898	—	—	217,478
Unrestricted	524,004	149,646	475,803	910	1,150,363
Total Net Assets	\$ 1,565,070	\$ 598,307	\$ 475,803	\$ 910	\$ 2,640,090

STATE OF HAWAII

Proprietary Funds

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

For the Fiscal Year Ended June 30, 2006

(Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenues (note 10):					
Concession fees	\$ 120,409	\$ —	\$ —	\$ —	\$ 120,409
Unemployment compensation tax	—	—	181,146	—	181,146
Aviation fuel tax	2,590	—	—	—	2,590
Airport use charges	36,085	—	—	—	36,085
Rentals	65,521	24,916	—	—	90,437
Services and others	631	56,284	—	—	56,915
Other	3,762	2,017	—	3,133	8,912
Total Operating Revenues	228,998	83,217	181,146	3,133	496,494
Operating Expenses:					
Personnel services	95,218	11,863	—	1,514	108,595
Depreciation (note 4)	75,597	13,799	—	—	89,396
Repairs and maintenance	26,915	6,755	—	—	33,670
Airports operations	38,888	—	—	—	38,888
Harbors operations	—	11,549	—	—	11,549
Fireboat operations	—	1,815	—	—	1,815
General administration	14,592	6,242	—	—	20,834
Unemployment compensation	—	—	105,786	—	105,786
Other	271	—	—	1,073	1,344
Total Operating Expenses	251,481	52,023	105,786	2,587	411,877
Operating Income (Loss)	(22,483)	31,194	75,360	546	84,617
Nonoperating Revenues (Expenses):					
Interest income	33,937	6,185	—	—	40,122
Interest expense	(39,509)	(8,527)	—	—	(48,036)
Federal grants	7,750	—	—	—	7,750
Loss on disposal of capital assets	(635)	(858)	—	—	(1,493)
Passenger facility charges	22,680	—	—	—	22,680
Other	(461)	—	—	—	(461)
Total Nonoperating Revenues (Expenses)	23,762	(3,200)	—	—	20,562
Income before Capital Contributions	1,279	27,994	75,360	546	105,179
Capital Contributions					
Change in Net Assets	73,273	122	—	—	73,395
Net Assets – Beginning , as previously reported	74,552	28,116	75,360	546	178,574
Adjustments (note 1)					
Net Assets – Beginning, as restated	1,490,518	574,086	400,443	364	2,465,411
Net Assets – Ending	\$ 1,565,070	\$ 598,307	\$ 475,803	\$ 910	\$ 2,640,090

See accompanying notes to basic financial statements.

STATE OF HAWAII

Proprietary Funds Statement of Cash Flows

For the Fiscal Year Ended June 30, 2006

(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Fund	Total Proprietary Funds
Cash Flows from Operating Activities:					
Cash received from customers	\$ 233,854	\$ 82,396	\$ 178,446	\$ —	\$ 316,250
Cash received from taxes	—	—	—	—	178,446
Cash received from employees	—	—	—	7,747	7,747
Cash paid to suppliers	(116,110)	(24,079)	—	(2,280)	(142,469)
Cash paid to employees	(57,332)	(12,157)	—	—	(69,489)
Cash paid for unemployment compensation	—	—	(103,086)	—	(103,086)
Other cash receipts	7	—	—	—	7
Net Cash Provided by Operating Activities	<u>60,419</u>	<u>46,160</u>	<u>75,360</u>	<u>5,467</u>	<u>187,406</u>
Cash Flows Provided by Noncapital Financing Activity:					
Proceeds from federal operating grants	<u>7,249</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,249</u>
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(53,259)	(45,064)	—	—	(98,323)
Proceeds from reimbursable general obligation bonds	—	7,101	—	—	7,101
Repayment of general obligation and revenue bonds principal	(25,259)	(9,141)	—	—	(34,400)
Interest paid on bonds	(40,281)	(7,841)	—	—	(48,122)
Proceeds from passenger facility charges program	22,219	—	—	—	22,219
Proceeds from federal, state, and capital grants	<u>29,904</u>	<u>541</u>	<u>—</u>	<u>—</u>	<u>30,445</u>
Net Cash Used in Capital and Related Financing Activities	<u>(66,676)</u>	<u>(54,404)</u>	<u>—</u>	<u>—</u>	<u>(121,080)</u>
Cash Flows from Investing Activities:					
Purchase of investments	(75,252)	—	—	—	(75,252)
Proceeds from sales and maturities of investments	<u>75,252</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>75,252</u>
Interest from investments	<u>30,482</u>	<u>5,960</u>	<u>—</u>	<u>—</u>	<u>36,442</u>
Net Cash Provided by Investing Activities	<u>30,482</u>	<u>5,960</u>	<u>—</u>	<u>—</u>	<u>36,442</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>31,474</u>	<u>(2,284)</u>	<u>75,360</u>	<u>5,467</u>	<u>110,017</u>
Cash and Cash Equivalents, Including Restricted Amounts – Beginning					
	<u>715,843</u>	<u>181,310</u>	<u>411,643</u>	<u>77,046</u>	<u>1,385,842</u>
Cash and Cash Equivalents, Including Restricted Amounts – Ending					
	<u>\$ 747,317</u>	<u>\$ 179,026</u>	<u>\$ 487,003</u>	<u>\$ 82,513</u>	<u>\$ 1,495,859</u>

STATE OF HAWAII

Proprietary Funds Statement of Cash Flows (Cont'd)

For the Fiscal Year Ended June 30, 2006

(Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ (22,483)	\$ 31,194	\$ 75,360	\$ 546	\$ 84,617
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Provision for uncollectible accounts	—	463	—	—	463
Depreciation	75,597	13,799	—	—	89,396
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	867	—	—	—	867
Insurance proceeds	7	—	—	—	7
Decrease (increase) in assets:					
Receivables	6,090	(1,131)	(2,700)	—	2,259
Inventory of materials and supplies	(40)	(203)	—	—	(243)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	3,534	2,478	2,700	307	9,019
Other accrued liabilities	(1,020)	(440)	—	4,614	3,154
Prepaid airport use charge fund	(1,348)	—	—	—	(1,348)
Deferred revenue	(785)	—	—	—	(785)
Net Cash Provided by Operating Activities	<u>\$ 60,419</u>	<u>\$ 46,160</u>	<u>\$ 75,360</u>	<u>\$ 5,467</u>	<u>\$ 187,406</u>
Noncash Investing, Capital, and Financing Activities:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	\$ 832	\$ 672	—	\$ —	\$ 1,504
Project costs written off	651	—	—	—	651
Contracts payable accrual for the acquisition of capital assets	11,147	—	—	—	11,147
Capitalized interest	3,180	—	—	—	3,180
Principal payments relating to special facility revenue bonds	965	—	—	—	965
Interest payments relating to special facility revenue bonds	2,770	—	—	—	2,770

See accompanying notes to basic financial statements.

STATE OF HAWAII

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2006

(Amounts in thousands)

<u>ASSETS</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Cash and short-term investments (note 3)	\$ 49,062	\$ 81,638
Receivables:		
Taxes	—	11,700
Accrued interest	939	313
Total Receivables	939	12,013
Due from individuals, businesses, and counties	—	13,698
Investments (note 3):		
Certificates of deposit	1,326	720
U.S. government securities	118,057	64,089
Repurchase agreements	13,265	7,202
Total Investments	132,648	72,011
Total Assets	182,649	\$ 179,360
<u>LIABILITIES AND NET ASSETS</u>		
Vouchers payable	\$ 878	\$ 19,655
Due to individuals, businesses, and counties	—	159,705
Total Liabilities	878	\$ 179,360
Net assets – held in trust	\$ 181,771	

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, 2006

(Amounts in thousands)

	Private Purpose Trust Fund
Additions:	
Charges for current services	\$ 388
Rentals	10,396
Interest and investment income	10,916
Hawaiian Home Lands Trust settlement (note 12)	30,000
Other	1
Total Additions	<u>51,701</u>
Deductions:	
Personal services	3,650
Other	41,529
Total Deductions	<u>45,179</u>
Change in Net Assets	6,522
Net Assets – Beginning	<u>175,249</u>
Net Assets – Ending	<u>\$ 181,771</u>

See accompanying notes to basic financial statements.

STATE OF HAWAII
Component Units
Statement of Net Assets

June 30, 2006

(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	\$ 177,365	\$ 187,523	\$ 27,489	\$ 3,581	\$ 395,958	
Receivables:						
Accounts and accrued interest (net of allowance for doubtful accounts of \$120,533)	83,381	8,851	58,806	1,893	152,931	
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts of \$6,530)	28,146	73,896	—	—	102,042	
Federal government	—	4,491	—	—	4,491	
Other	—	26,334	—	—	26,334	
Due from Primary Government (note 8)	7,965	—	—	—	7,965	
Investments	409,118	6,381	—	178,136	593,635	
Inventories:						
Developments in progress and dwelling units	—	20,916	—	—	20,916	
Materials and supplies	11,427	825	10,390	—	22,642	
Net investment in financing lease	—	16,363	—	—	16,363	
Prepaid expenses and other assets	19,444	1,676	3,031	—	24,151	
	<u>736,846</u>	<u>347,256</u>	<u>99,716</u>	<u>183,610</u>	<u>1,367,428</u>	
Restricted assets:						
Cash and short-term investments	8,862	34,318	—	—	43,180	
Investments:						
Guaranteed investment contracts	—	99	—	—	99	
Mortgage-backed securities	—	178,754	—	—	178,754	
Repurchase agreements	—	115,824	—	—	115,824	
Private debt obligations	—	556	—	—	556	
Deposits, funded reserves, and other	—	8,506	872	—	9,378	
	<u>8,862</u>	<u>338,057</u>	<u>872</u>	<u>—</u>	<u>347,791</u>	
Capital assets:						
Land and land improvements	11,828	46,376	5,181	—	63,385	
Infrastructure	50,900	—	—	—	50,900	
Construction in progress	89,963	45,251	63,085	—	198,299	
Buildings, improvements, and equipment	1,566,978	646,808	342,957	—	2,556,743	
Less accumulated depreciation	(704,243)	(344,917)	(189,768)	—	(1,238,928)	
	<u>1,015,426</u>	<u>393,518</u>	<u>221,455</u>	<u>—</u>	<u>1,630,399</u>	
Other assets:						
Bond issue costs	—	2,363	—	—	2,363	
	<u>Total Assets</u>	<u>\$ 1,761,134</u>	<u>\$ 1,081,194</u>	<u>\$ 322,043</u>	<u>\$ 183,610</u>	<u>\$ 3,347,981</u>

See accompanying notes to basic financial statements.

<u>LIABILITIES</u>	<u>University of Hawaii</u>	<u>Housing and Community Development Corporation of Hawaii</u>	<u>Hawaii Health Systems Corporation</u>	<u>Hawaii Hurricane Relief Fund</u>	<u>Total Component Units</u>
Current Liabilities:					
Vouchers and contracts payable	\$ 42,953	\$ 10,191	\$ 39,871	\$ 3,427	\$ 96,442
Other accrued liabilities	62,357	21,280	20,823	—	104,460
Due to Primary Government (note 8)	6,000	—	13,300	—	19,300
Due to federal government	—	22	—	—	22
Deferred revenue	25,452	2,459	—	—	27,911
Estimated future costs of land sold	—	30,017	—	—	30,017
General obligation bonds payable (note 5)	2,935	—	—	—	2,935
Notes, mortgages, and installment contracts payable	248	171	699	—	1,118
Accrued vacation and retirement benefits payable	19,297	—	1,671	—	20,968
Revenue bonds payable (note 14)	3,720	9,566	—	—	13,286
Reserve for losses and loss adjustment costs	3,792	—	19,275	—	23,067
Capital lease obligations	415	—	8,106	—	8,521
Deferred commitment fees	—	567	—	—	567
Other liabilities	11,530	2,325	5,193	—	19,048
Total Current Liabilities	178,699	76,598	108,938	3,427	367,662
Noncurrent Liabilities:					
General obligation bonds payable (note 5)	4,632	—	—	—	4,632
Notes, mortgages, and installment contracts payable	272	6,561	10,881	—	17,714
Accrued vacation and retirement benefits payable	32,912	—	26,552	—	59,464
Revenue bonds payable (note 14)	156,560	379,036	—	—	535,596
Reserve for losses and loss adjustment costs	8,429	—	—	—	8,429
Capital lease obligations	14,255	—	32,255	—	46,510
Deferred commitment fees	—	1,765	—	—	1,765
Other liabilities	—	—	657	—	657
Total Long-Term Liabilities	217,060	387,362	70,345	—	674,767
Total Liabilities	395,759	463,960	179,283	3,427	1,042,429
NET ASSETS					
Invested in capital assets, net of related debt	843,406	284,878	169,666	—	1,297,950
Restricted	252,847	338,056	493	—	591,396
Unrestricted (deficit)	269,122	(5,700)	(27,399)	180,183	416,206
Total Net Assets	\$ 1,365,375	\$ 617,234	\$ 142,760	\$ 180,183	\$ 2,305,552

STATE OF HAWAII

Component Units

Statement of Revenues, Expenditures, and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

(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	\$ 1,102,802	\$ 148,833	\$ 393,504	\$ 177	\$ 1,645,316
Program Revenues:					
Charges for services	231,683	72,265	352,772	—	656,720
Operating grants and contributions	347,165	73,408	261	—	420,834
Capital grants and contributions	36,472	14,625	26,116	—	77,213
Total Program Revenues	615,320	160,298	379,149	—	1,154,767
Net Program Revenues (Expenses)	(487,482)	11,465	(14,355)	(177)	(490,549)
General Revenues (Expenses):					
Interest and investment income	28,357	—	540	4,112	33,009
Payments from (to) the State	599,985	(26)	37,754	(14,652)	623,061
Other	(4,538)	—	1,582	—	(2,956)
Net General Revenues (Expenses)	623,804	(26)	39,876	(10,540)	653,114
Change in Net Assets	136,322	11,439	25,521	(10,717)	162,565
Net Assets – Beginning	1,229,053	605,795	117,239	190,900	2,142,987
Net Assets – Ending	\$ 1,365,375	\$ 617,234	\$ 142,760	\$ 180,183	\$ 2,305,552

See accompanying notes to basic financial statements.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the State of Hawaii (the State) have been prepared in conformity with U.S. generally accepted accounting principles (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 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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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 has not been finalized as of June 30, 2006. Accordingly, the assets, liabilities, and net assets of the HHSC reflected in the accompanying basic financial statements may be significantly different from those included in the final settlement.

The HHSC is comprised of the following state hospitals:

Hale Ho'ola Hamakua	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	

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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 mortgagors 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, are not accountable to the State.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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

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

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

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

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

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

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

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.

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.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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.

STATE OF HAWAII

Notes to Basic Financial Statements

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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

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

Component Units

Component Units are comprised of (1) the UH, which is comprised of the State's public institutions of higher education; (2) the 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.

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G. Investments

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

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 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.

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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 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.

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

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restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

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

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

- Continuing appropriations which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.
- Notes and loans receivable, advances, and investments which are not currently available for expenditure at the Governmental Funds' balance sheet date.
- Federal aid highway projects encumbrances.
- Bond redemption and other.
- 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

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 \$4 million with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$100 million, except for flood and earthquake which individually is a \$50 million aggregate loss, and terrorism which is \$50 million per occurrence. The annual aggregate for general liability losses and

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losses due to crime per occurrence is \$10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of \$20 million per occurrence and in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, 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.

Net assets of Harbors as of July 1, 2005 have been restated for the cumulative effect of an overstatement of capital assets, accumulated depreciation, and construction in progress. Net assets as of July 1, 2005 decreased by \$3,894,652 as a result of the overstatement of capital assets of \$23,958,295, overstatement of accumulated depreciation of \$21,525,529, and overstatement of construction in progress of \$1,461,886. For the fiscal year ended June 30, 2005, maintenance expenses and interest expense would have increased by \$562,840 and \$183,587, respectively, and general administration and depreciation expense would have decreased by \$5,070 and \$1,249,462, respectively, in the statement of revenues, expenses, and changes in fund net assets.

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Notes to Basic Financial Statements

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S. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 42

The State adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective July 1, 2005. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance proceeds. GASB Statement No. 42 did not have an impact on the State's basic financial statements for the fiscal year ended June 30, 2006.

Governmental Accounting Standards Board Statement No. 44

The State adopted GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section – an Amendment of National Council on Government Accounting (NCGA) Statement 1*, effective July 1, 2005. This statement improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 44 did not have an impact on the State's basic financial statements for the fiscal year ended June 30, 2006, but required additional disclosures in the statistical section of the Comprehensive Annual Financial Report.

Governmental Accounting Standards Board Statement No. 46

The State adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*, effective July 1, 2005. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to the government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. GASB Statement No. 46 did not have an impact on the State's basic financial statements for the fiscal year ended June 30, 2006.

Governmental Accounting Standards Board Statement No. 47

The State adopted GASB Statement No. 47, *Accounting for Termination Benefits*, effective July 1, 2005. This statement establishes standards for employers accounting of benefits associated with either voluntary or involuntary terminations. GASB Statement No. 47 did not have an impact on the State's basic financial statements for the fiscal year ended June 30, 2006.

(2) BUDGETING AND BUDGETARY CONTROL

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the general fund statement of revenues and expenditures – budget and actual (budgetary basis) are those estimates as compiled by the Council on Revenues and the

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Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2005 (Act 178, SLH of 2005) 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 2004 – 2006 biennial budget.

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

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

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2006, there were no expenditures in excess of appropriations in the individual funds.

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

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

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Notes to Basic Financial Statements

June 30, 2006

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2006 follows (amounts expressed in thousands):

	<u>General Fund</u>
Excess of revenues and other sources over expenditures – actual (budgetary basis)	\$ 324,996
Reserve for encumbrances at fiscal year-end*	204,664
Expenditures for liquidation of prior fiscal year encumbrances	(192,335)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	(3,236)
Tax refunds payable	(4,000)
Accrued liabilities	(22,276)
Accrued revenues	(9,814)
 Net change in fund balance – GAAP basis	 \$ 297,999

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

(3) CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State which in the Director'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, 2006 was \$1,843,121,000 and \$274,338,000, respectively, for the Primary Government and \$130,700,000 for the Fiduciary Funds.

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Notes to Basic Financial Statements

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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 \$1,945,181,560 at June 30, 2006. Of that amount, \$1,412,406,334 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 \$532,775,226 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.

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.

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Notes to Basic Financial Statements

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The following tables present the State's investments and maturities at June 30, 2006 (amounts expressed in thousands).

	Fair Value	Maturity (in years)		
		Less than 1	1-5	30
Investments – Primary				
Government:				
Certificates of deposit	\$ 74,598	\$ 18,299	\$ 56,299	\$ —
U.S. government securities	1,284,579	—	1,284,579	—
Repurchase agreements	560,821	331,952	228,869	—
	1,919,998	350,251	1,569,747	—
Less:				
Restricted assets investments	(75,251)	(75,251)	—	—
	\$ 1,844,747	\$ 275,000	\$ 1,569,747	\$ —
Investments – Fiduciary Funds:				
Certificates of deposit	\$ 2,046	\$ —	\$ 2,046	\$ —
U.S. government securities	182,146	182,135	—	11
Repurchase agreements	20,467	—	20,467	—
	\$ 204,659	\$ 182,135	\$ 22,513	\$ 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, 2006, 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.

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.

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Notes to Basic Financial Statements

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(4) CAPITAL ASSETS

For the fiscal year ended June 30, 2006, 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, 2005	Additions	Deletions	Balance, June 30, 2006
Capital assets not being depreciated:				
Land and land improvements	\$ 2,379,192	\$ 51,727	\$ (122,376)	\$ 2,308,543
Construction in progress	<u>793,421</u>	<u>343,942</u>	<u>(534,540)</u>	<u>602,823</u>
Total capital assets not being depreciated	<u>3,172,613</u>	<u>395,669</u>	<u>(656,916)</u>	<u>2,911,366</u>
Capital assets being depreciated:				
Infrastructure	7,731,002	197,362	(1,624)	7,926,740
Buildings and improvements	2,929,221	62,351	(19,278)	2,972,294
Equipment	<u>244,729</u>	<u>23,283</u>	<u>(15,373)</u>	<u>252,639</u>
Total capital assets being depreciated	<u>10,904,952</u>	<u>282,996</u>	<u>(36,275)</u>	<u>11,151,673</u>
Less accumulated depreciation:				
Infrastructure	(3,322,339)	(85,205)	4,122	(3,403,422)
Buildings and improvements	(1,475,448)	(24,484)	9,192	(1,490,740)
Equipment	<u>(183,786)</u>	<u>(258,668)</u>	<u>633</u>	<u>(441,821)</u>
Total accumulated depreciation	<u>(4,981,573)</u>	<u>(368,357)</u>	<u>13,947</u>	<u>(5,335,983)</u>
Total capital assets	<u>\$ 9,095,992</u>	<u>\$ 310,308</u>	<u>\$ (679,244)</u>	<u>\$ 8,727,056</u>

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Notes to Basic Financial Statements

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Business-Type Activities						
	Balance, July 1, 2005, as previously reported	Adjustments (Note 1)	Balance, July 1, 2005 as restated	Additions	Deletions	Balance, June 30, 2006
Capital assets not being depreciated:						
Land and land improvements	\$ 555,818	\$ (4,203)	\$ 551,615	\$ 19,678	\$ (17)	\$ 571,276
Construction in progress	125,552	(1,462)	124,090	99,937	(41,905)	182,122
Total capital assets not being depreciated	<u>681,370</u>	<u>(5,665)</u>	<u>675,705</u>	<u>119,615</u>	<u>(41,922)</u>	<u>753,398</u>
Capital assets being depreciated:						
Buildings and improvements	2,514,504	(19,208)	2,495,296	68,297	(2,670)	2,560,923
Equipment	185,512	(547)	184,965	5,912	(1,286)	189,591
Total capital assets being depreciated	<u>2,700,016</u>	<u>(19,755)</u>	<u>2,680,261</u>	<u>74,209</u>	<u>(3,956)</u>	<u>2,750,514</u>
Less accumulated depreciation:						
Buildings and improvements	(1,210,362)	19,521	(1,190,841)	(83,639)	1,911	(1,272,569)
Equipment	(160,023)	2,004	(158,019)	(5,757)	1,053	(162,723)
Total accumulated depreciation	<u>(1,370,385)</u>	<u>21,525</u>	<u>(1,348,860)</u>	<u>(89,396)</u>	<u>2,964</u>	<u>(1,435,292)</u>
Total capital assets	<u>\$ 2,011,001</u>	<u>\$ (3,895)</u>	<u>\$ 2,007,106</u>	<u>\$ 104,428</u>	<u>\$ (42,914)</u>	<u>\$ 2,068,620</u>

Depreciation expense for the fiscal year ended June 30, 2006 was charged to functions/programs of the Primary Government as follows:

Governmental Activities:

General government	\$ 20,672
Public safety	11,058
Highways	244,045
Conservation of natural resources	8,509
Health	4,650
Welfare	847
Lower education	49,881
Culture and recreation	1,174
Urban redevelopment and housing	<u>27,521</u>
Total depreciation expense – governmental activities	<u>\$ 368,357</u>

Business-Type Activities:

Airports	\$ 75,597
Harbors	<u>13,799</u>
Total depreciation expense – business-type activities	<u>\$ 89,396</u>

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Notes to Basic Financial Statements

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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; and Series CS, issued April 1, 1998, contain call provisions (call prices range from \$100 to \$103). Stated interest rates range from 2.650% to 7.150%.

In fiscal 2006, the State issued \$350,000,000 of general obligation bonds, Series DI, dated March 23, 2006, with interest rates ranging from 3.50% to 5.50%. Bonds maturing after March 1, 2016 will be subject to redemption of the State at any time on and after March 1, 2016 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 Homes Lands Trust settlement and public improvement projects.

At June 30, 2006, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	\$ 3,556,140
Noncallable	<u>774,528</u>
Total general obligation bonds outstanding	4,330,668
Less amount recorded as a liability of:	
Proprietary Funds (business-type activities)	\$ 137
Component Unit – UH	<u>7,567</u>
	7,704
Amount recorded in the governmental activities of the Primary Government	\$ 4,322,964

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A summary of general obligation bonds outstanding by series as of June 30, 2006 follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Amount Outstanding
X	August 1, 1972	4.000%	August 1, 2006 – 2007	\$ 615
BL	December 6, 1988	7.681%	December 1, 2006 – 2008	12,190
BQ	November 28, 1989	7.100% – 7.150%	December 1, 2006 – 2009	17,778
BW	March 1, 1992	6.250% – 6.400%	March 1, 2007 – 2012	22,125
BZ	October 1, 1992	5.800% – 6.000%	October 1, 2006 – 2012	87,500
CA	January 1, 1993	5.500% – 8.000%	January 1, 2007 – 2013	35,000
CB	January 1, 1993	5.500% – 5.750%	January 1, 2007 – 2008	16,590
CC	February 1, 1993	5.125%	February 1, 2007 – 2009	71,745
CG	July 1, 1993	4.900% – 5.000%	July 1, 2006	1,320
CH	November 1, 1993	4.750% – 6.000%	November 1, 2006 – 2013	111,100
CI	November 1, 1993	4.500% – 4.900%	November 1, 2006 – 2010	105,625
CL	March 1, 1996	5.100% – 6.000%	March 1, 2007 – 2010	22,220
CM	December 1, 1996	6.000% – 6.500%	December 1, 2006 – 2016	91,655
CN	March 1, 1997	6.000% – 6.250%	March 1, 2007 – 2009	58,200
CO	March 1, 1997	6.000%	September 1, 2006 – 2010, March 1, 2007 – 2011	116,055
CP	October 1, 1997	5.500% – 5.500%	October 1, 2006 – 2017	81,185
CR	April 1, 1998	5.000% – 5.750%	April 1, 2007 – 2008	23,125
CS	April 1, 1998	5.000% – 5.250%	April 1, 2007 – 2009	158,910
CT	September 15, 1999	5.250% – 5.625%	September 1, 2006 – 2012	61,155
CU	October 15, 2000	4.600% – 5.750%	October 1, 2006 – 2012	49,995
CV	August 1, 2001	4.800% – 5.500%	August 1, 2006 – 2021	243,675
CW	August 1, 2001	3.400% – 5.500%	August 1, 2006 – 2015	140,605
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
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
DI	March 23, 2006	3.500% – 5.500%	March 1, 2010 – 2026	350,000
				\$ 4,330,668

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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

	Principal	Interest	Total
Fiscal year:			
2007	\$ 307,085	\$ 237,222	\$ 544,307
2008	322,188	224,662	546,850
2009	336,969	209,994	546,963
2010	333,688	178,144	511,832
2011	341,567	148,060	489,627
2012 – 2016	1,394,392	504,177	1,898,569
2017 – 2021	823,335	214,835	1,038,170
2022 – 2026	463,740	52,064	515,804
	\$ 4,322,964	\$ 1,769,158	\$ 6,092,122

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

	Principal	Interest	Total
Fiscal year:			
2007	\$ 99	\$ 4	\$ 103
2008	11	2	13
2009	13	2	15
2010	14	2	16
	\$ 137	\$ 9	\$ 146

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2006, \$1,092,090,000 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, 2006 was \$284,480,000.

At June 30, 2006, general obligation bonds authorized but unissued were approximately \$716,265,000.

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Notes to Basic Financial Statements

June 30, 2006

(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 bonds are payable semiannually on January and July 1 through 2021.

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

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

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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

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

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2006, bonds outstanding considered defeased amounted to \$131,225,000.

The following is a summary of Highways' and DHHL's revenue bonds issued and outstanding at June 30, 2006 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Outstanding Amount
Highways:				
1996	September 1, 1996	3.80% – 6.00%	July 1, 2007 – July 1, 2009	\$ 8,500
1998	July 1, 1998	4.00% – 5.50%	July 1, 2006 – July 1, 2018	35,340
2000	October 31, 2000	4.40% – 5.50%	July 1, 2006 – July 1, 2010	10,660
2001	October 25, 2001	3.75% – 5.375%	July 1, 2006 – July 1, 2022	22,085
2003	April 15, 2003	2.50% – 5.00%	July 1, 2006 – July 1, 2013	37,105
2005 A	March 15, 2005	3.00% – 5.00%	July 1, 2006 – July 1, 2025	60,000
2005 B	March 15, 2005	5.00% – 5.25%	July 1, 2010 – July 1, 2021	123,915
DHHL:				
1999	January 15, 1999	3.80% – 4.45%	July 1, 2006 – July 1, 2011	\$ 8,650
				\$ 306,255

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Notes to Basic Financial Statements

June 30, 2006

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

	Principal	Interest	Total
Fiscal year:			
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	18,460	11,260	29,720
2012 – 2016	98,200	43,552	141,752
2017 – 2021	93,100	17,854	110,954
2022 – 2026	30,140	3,061	33,201
	<hr/> <u>\$ 306,255</u>	<hr/> <u>\$ 128,295</u>	<hr/> <u>\$ 434,550</u>

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.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2006 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2000A, refunding	5.50% – 6.00%	2021	\$ 26,415	\$ 26,415
2000B, refunding	5.00% – 8.00%	2020	261,465	239,820
2001, refunding	4.00% – 5.75%	2021	<hr/> <u>423,255</u>	<hr/> <u>407,460</u>
			<hr/> <u>\$ 711,135</u>	<hr/> <u>673,695</u>
Add unamortized premium				11,671
Less:				
Unamortized discount				(800)
Deferred loss on refunding				(14,485)
Current portion				<hr/> <u>(30,565)</u>
Noncurrent portion				<hr/> <u>\$ 639,516</u>

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

The liabilities for refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2006, bonds outstanding considered defeased amounted to \$74,030,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provides reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverages for fire, workers' compensation, and public liability. At June 30, 2006, \$188,511,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

Airports Special Facility Revenue Bonds

Airports entered into three special facility lease agreements, two with Continental Airlines, Inc. in November 1997 and July 2000, and one with 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 \$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 \$37,895,000 at June 30, 2006.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2006:

\$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.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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

Harbors Revenue Bonds

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

The following is a summary of the Harbors revenue bonds as of June 30, 2006 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current Principal				Total	Noncurrent
				Principal Due July 1, 2006	Principal Due January 1, 2007				
1997	July 1, 2027	3.95% – 5.75%	\$ 56,290	\$ 510	\$ —	\$ 510	\$ 52,405		
2000	July 1, 2029	4.50% – 6.00%	79,405	2,255	—	2,255	63,890		
2002	July 1, 2019	3.00% – 5.50%	24,420	2,100	—	2,100	16,190		
2004	January 1, 2024	2.50% – 6.00%	52,030	—	4,570	4,570	38,945		
			\$ <u>212,145</u>	4,865	4,570	9,435	171,430		
Add unamortized premium								161	803
Less:									
Unamortized discount								(140)	(1,630)
Unamortized deferred loss on refunding								(519)	(3,693)
			\$ <u>4,865</u>	\$ <u>4,570</u>	\$ <u>8,937</u>	\$ <u>8,937</u>	\$ <u>166,910</u>		

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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:			
2007	\$ 43,053	\$ 49,755	\$ 92,808
2008	31,680	47,400	79,080
2009	31,403	45,686	77,089
2010	33,270	43,912	77,182
2011	34,470	41,714	76,184
2012 – 2016	278,313	167,835	446,148
2017 – 2021	340,283	72,298	412,581
2022 – 2026	32,250	13,075	45,325
2027 – 2030	30,020	2,572	32,592
	<hr/> <u>\$ 854,742</u>	<hr/> <u>\$ 484,247</u>	<hr/> <u>\$ 1,338,989</u>

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not include debt service reserves as of June 30, 2006, which are held in anticipation of principal and interest payments due on July 1, 2006 and January 1, 2007.

C. Revenue Bonds Authorized But Unissued

At June 30, 2006, revenue bonds authorized but unissued were approximately \$2,835,757,000.

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, 2006 amounted to \$1,383,146,000. At June 30, 2006, special purpose revenue bonds of \$1,278,510,000 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, 2006 amount to nil.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

(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					Due within one year
	Balance, July 1, 2005	Additions	Deductions	Balance, June 30, 2006		
General obligation bonds payable, net (note 5)	\$ 4,256,633	\$ 350,000	\$ (283,669)	\$ 4,322,964	\$ 307,085	
Accrued vacation payable	174,128	85,419	(74,524)	185,023		59,944
Revenue bonds payable (note 6)	319,305	—	(13,050)	306,255		15,595
Reserve for losses and loss adjustment costs (note 13)	89,100	14,600	(26,200)	77,500		55,900
Claims and judgments payable (note 12)	220,800	13,200	(30,000)	204,000		30,000
Capital lease obligations (note 10)	61,340	—	(3,305)	58,035		3,445
Total	\$ 5,121,306	\$ 463,219	\$ (430,748)	\$ 5,153,777	\$ 471,969	

	Business-Type Activities					Due within one year
	Balance, July 1, 2005	Additions	Deductions	Balance, June 30, 2006		
General obligation bonds payable, net (note 5)	\$ 167	\$ —	\$ (30)	\$ 137	\$	99
Accrued vacation and retirement benefits payable	9,982	4,105	(4,570)	9,517		2,899
Revenue bonds payable (note 6)	927,695	—	(35,240)	892,455		41,000
Reserve for losses and loss adjustment costs	4,553	1,086	(1,079)	4,560		1,049
Other	953	—	—	953		—
	943,350	5,191	(40,919)	907,622		45,047
Add unamortized premium	14,319	—	(1,684)	12,635		161
Less:						
Unamortized net discount	(2,776)	—	206	(2,570)		(140)
Deferred loss on refunding	(21,096)	—	2,399	(18,697)		(519)
	\$ 933,797	\$ 5,191	\$ (39,998)	\$ 898,990	\$	44,549

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, 2006.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

(8) INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2006 (amounts expressed in thousands):

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund:		
Capital Projects Fund	\$ 89,900	\$ —
Nonmajor Governmental Funds	72,100	83
UH	6,000	7,965
HHSC	13,300	—
	<u>181,300</u>	<u>8,048</u>
Capital Projects Fund:		
General Fund	—	89,900
Harbors	<u>8,517</u>	—
	<u>8,517</u>	<u>89,900</u>
Nonmajor Governmental Funds:		
General Fund	<u>83</u>	<u>72,100</u>
Proprietary Funds:		
Harbors:		
Capital Projects Fund	—	8,517
Component Units:		
UH:		
General Fund	7,965	6,000
HHSC:		
General Fund	—	13,300
	<u>\$ 197,865</u>	<u>\$ 197,865</u>

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

(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, 2006, transfers by fund were as follows (amounts expressed in thousands):

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund:		
Nonmajor Governmental Funds	\$ 11,485	\$ 386,559
Capital Projects Fund:		
Nonmajor Governmental Funds	94,906	6,705
Nonmajor Governmental Funds:		
General Fund	393,264	11,485
Capital Projects Fund	—	94,906
	<u>393,264</u>	<u>106,391</u>
	<u>\$ 499,655</u>	<u>\$ 499,655</u>

The General Fund transferred approximately \$376,070,000 to the Nonmajor Governmental Funds for debt service payments and approximately \$10,489,000 to subsidize various Special Revenue Funds programs. Approximately \$94,906,000 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, 2006 were as follows (amounts expressed in thousands):

Fiscal year:		
2007	\$ 14,183	
2008	10,880	
2009	7,573	
2010	4,557	
2011	2,533	
2012 – 2016	5,070	
2017 – 2021	4,696	
2022 – 2026	1,239	
2027 – 2028	75	
Total future minimum lease payments	<u>\$ 50,806</u>	

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

Rent expenditures for operating leases for the fiscal year ended June 30, 2006 amounted to approximately \$45,420,000.

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:	
2007	\$ 6,352
2008	6,347
2009	6,354
2010	6,350
2011	6,350
2012 – 2016	31,756
2017 – 2020	<u>16,601</u>
Total future minimum lease payments	80,110
Less amount representing interest	<u>(22,075)</u>
Present value of net minimum lease payments	\$ 58,035

B. Lease Rentals

Airports – Airport-Airline Lease Agreement

Airports and the airline companies serving the Airports system (signatory airlines) operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement contains a provision under which the

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. As of the date hereof, the lease extension agreement remains in effect, with annual ad-hoc adjustments to Airports system rates and charges and related terms.

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

Airports – Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). During fiscal 2000, the parties agreed to transfer the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal years 1996 through 2006 have been transferred to the PAUCF. Airports paid \$1,348,000 out of the PAUCF to the signatory airlines in fiscal 2006.

Airports – Aviation Fuel Tax

In May 1996, the Department of Taxation issued a tax information release which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to \$2,590,355 for fiscal 2006.

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 \$36,084,719 for fiscal 2006 based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 36% of the Airports landing fees for overseas flights.
- Nonexclusive joint-use premise charges for terminal rentals amounted to \$25,795,048 for fiscal 2006. For fiscal 2006, the over payment of \$867,093 was transferred into the PAUCF. 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.

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Notes to Basic Financial Statements

June 30, 2006

- Exclusive use premise charges amounted to \$28,596,553 for fiscal 2006 and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to \$15,926,032 for fiscal 2006.
- Airports system support charges amounted to \$631,406 for fiscal 2006. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

Airports – Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2006 was approximately \$60,176,554.

In fiscal 2006, Airports converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 2.5% to 6%, and are due over periods ranging from 11 months to 36 months. The balance of \$5,240,454 at June 30, 2006 is due as follows: 2007 – \$2,109,422, 2008 – \$342,693, and 2009 – \$2,788,339.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 41% of total concession fees revenues for the fiscal year ended June 30, 2006.

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

The in-bond concession was re-bid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for the minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was \$37,311,121, and the percentage rent was as follows: (1) for total concession receipts greater than \$165 million, but less than \$200 million, 22.5% for on-airport sales and 18.5% for off-airport sales; and (2) for total concession receipts greater than \$200 million, 30% for on-airport sales, and 22.5% for off-airport sales.

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

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

Harbors – Aloha Tower Complex Development

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

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

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

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

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

Revenues for the fiscal year ended June 30, 2006 amounted to \$98,322, and have been included in rental revenues. As of June 30, 2006, the amount due to Harbors was \$8,063,547. Accordingly, Harbors has 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, 2006 (amounts expressed in thousands):

	Proprietary Funds		
	Airports	Harbors	Total
Fiscal year:			
2007	\$ 59,114	\$ 6,670	\$ 65,784
2008	22,738	6,436	29,174
2009	15,751	6,385	22,136
2010	8,548	6,216	14,764
2011	8,277	6,306	14,583
Thereafter	81,386	96,456	177,842
	<hr/> <u>\$ 195,814</u>	<hr/> <u>\$ 128,469</u>	<hr/> <u>\$ 324,283</u>

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, 2006, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	\$ 69,654
Less amount representing interest	<hr/> <u>(35,504)</u>
	34,150
Cash with trustee and other	<hr/> <u>3,999</u>
	<hr/> <u>\$ 38,149</u>

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Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2006 consisted of the following (amounts expressed in thousands):

Fiscal year:		
2007	\$	3,425
2008		3,383
2009		3,357
2010		3,398
2011		3,716
Thereafter		<u>55,867</u>
	\$	<u>73,146</u>

(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 defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

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

On July 1, 2006, a new hybrid contributory plan will become effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the

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current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan, will be eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan.

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. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2006, 2005, and 2004 were approximately \$318,144,000, \$251,685,000, and \$181,614,000 respectively. The State contributed 100% of its required contributions for those years. Covered payroll for the fiscal year ended June 30, 2006 was approximately \$2,184,793,000.

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 26,000 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 2006, expenditures of \$178,675,000 were recognized for post-retirement health care and life insurance benefits, approximately \$38,193,000 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.

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(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, 2006, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:		
Economic Development	\$	232,169
Highways		81,247
Agriculture		8,075
Natural Resources		6,814
All Other		818
Administrative Support		7,244
	<hr/>	<hr/>
	\$	336,367
	<hr/>	<hr/>

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, 2006, accumulated sick leave was approximately \$1,333,448,000.

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, 2006.

B. Proprietary Fund Type – Enterprise Funds

Construction and Service Contracts

At June 30, 2006, the Enterprise Funds had commitments of approximately \$210,286,000 for construction and service contracts.

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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, 2006, 2005, and 2004 approximated \$20,700,000, \$1,200,000, and \$6,200,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately \$34,863,000 during the fiscal year ended June 30, 2006. As of June 30, 2006, the State expects to receive \$19,100,000 for the first six months of 2007.

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.

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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

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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

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

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

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

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

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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 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, 2006.

As of June 30, 2006, the State has transferred approximately \$330,000,000 to the Hawaiian Home Lands Trust Fund. The State's remaining \$270,000,000 obligation discounted at 6% and assuming annual payments of \$30,000,000 over the remaining term of the obligation is approximately \$204,000,000. Such amount has been included in claims and judgments payable in the accompanying statement of net assets.

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Transfer of Property

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

Individual Claims

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

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

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

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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

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

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

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

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

(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 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. The limit of loss per occurrence is \$100,000,000, except for flood and earthquake which individually is a \$50,000,000 aggregate loss, and terrorism which is \$50,000,000 per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence. 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 \$4,000,000 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.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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, 2006 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):

	2006	2005
Unpaid losses and loss adjustment costs at the beginning of the fiscal year	\$ 89,100	\$ 103,500
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	16,500	11,400
Decrease in provision for insured events of prior fiscal years	(1,900)	(1,600)
Total incurred losses and loss adjustment costs	<u>14,600</u>	<u>9,800</u>
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(3,400)	(2,600)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(22,800)	(21,600)
Total payments	<u>(26,200)</u>	<u>(24,200)</u>
Unpaid losses and loss adjustment costs at the end of the fiscal year	<u>\$ 77,500</u>	<u>\$ 89,100</u>

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

(14) SUBSEQUENT EVENTS

In July 2006, Harbors issued \$96,570,000 in Revenue Bonds, Series A of 2006. The Series A of 2006 Bonds will mature through the year 2031 at an average interest rate of 5.08%.

Due to the critical importance to preserve the Honolulu Harbor to support maritime needs, Act 165, SLH of 2006, was enacted to remove Piers 1 and 2 at Honolulu Harbor from the jurisdiction of HCDA and convey authority to the DOT and the Foreign Trade Zone Division of the Department of Business, Economic Development and Tourism effective July 1, 2006.

In September 2006, the Board of Regents of the UH issued University Revenue Bonds, Refunding Series 2006A, in the principal amount of \$133,810,000. The bonds bear interest at rates ranging from 3.50% to 5.00% and mature in annual installments through fiscal 2032.

In October 2006, the State experienced an earthquake centered off the Big Island of Hawaii. Harbors is currently in the process of evaluating the effects of the earthquake on the undertaking and any repairs or maintenance that would be required.

In November 2006, the Board of Regents of the UH issued University Revenue Bonds, Series 2006A, in the principal amount of \$100,000,000. The bonds bear interest at rates ranging from 3.62% to 5.00% and mature in annual installments through fiscal 2026.

In November 2006, the DHHL issued Certificates of Participation, 2006 Series A, in the principal amount of \$24,500,000 for the construction of the DHHL's Kapolei office facility. The certificates bear interest at rates ranging from 3.62% to 5.00% and mature in annual installments through fiscal 2022.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

Highways – accounts for programs related to maintaining and operating land transportation facilities.

Natural Resources – accounts for programs related to the conservation, development, and utilization of agriculture, aquaculture, water, land, and other natural resources of the State.

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, 2006

(Amounts in thousands)

ASSETS	Special Revenue Funds							
	Highways	Natural Resources	Wastewater	Health	Med-Quest	Human Services	Education	
Cash and short-term investments	\$ 10,361	\$ 47,197	\$ 31,706	\$ 31,789	\$ 4,801	\$ 32,305	\$ 36,944	
Receivables:								
Taxes	—	—	—	977	—	—	—	85
Accrued interest	1,826	255	—	—	—	—	—	—
Notes and loans, net	—	16,547	155,841	—	—	—	—	—
Federal government	—	—	—	—	—	72,100	—	—
Other	15,153	—	—	—	—	—	—	—
Due from other funds	5	—	365	—	—	—	—	—
Investments	245,747	58,402	131,651	100,156	—	2,303	34,504	
Other assets	—	1	—	—	—	—	—	—
Total Assets	\$ 273,092	\$ 122,402	\$ 319,563	\$ 132,922	\$ 4,801	\$ 106,708	\$ 71,533	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Vouchers and contracts payable	\$ 659	\$ 1,440	\$ 2,484	\$ 3,005	\$ 46	\$ 1,528	\$ 2,407	
Other accrued liabilities	293	756	53	1,511	—	174	1,768	
Due to other funds	—	—	—	365	—	72,100	—	—
Payable from restricted assets – matured bonds and interest payable	—	—	—	—	—	—	—	—
Total Liabilities	952	2,196	2,537	4,881	46	73,802	4,175	
Fund Balances:								
Reserved for:								
Continuing appropriations	170,341	26,699	83,417	47,026	10,304	49,704	36,529	
Receivables and advances	—	16,547	155,841	—	—	—	—	—
Bond redemption and other	—	29,918	4,443	—	—	—	—	—
Unreserved for Special Revenue Funds:								
Designated for future expenditures	9,709	36,956	193,084	5,022	—	190	750	
Undesignated	92,090	10,086	(119,759)	75,993	(5,549)	(16,988)	30,079	
Total Fund Balances	272,140	120,206	317,026	128,041	4,755	32,906	67,358	
Total Liabilities and Fund Balances	\$ 273,092	\$ 122,402	\$ 319,563	\$ 132,922	\$ 4,801	\$ 106,708	\$ 71,533	

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						
\$ 37,279	\$ 8,578	\$ 11,670	\$ 10,704	\$ 50,692	\$ 16,139	\$ 330,165	\$ 7,946	\$ —	\$ —	\$ —	\$ —	\$ 338,111
11,700	—	—	—	—	—	11,700	—	—	—	—	—	11,700
382	170	170	127	212	43	4,247	—	—	—	—	—	4,247
49	—	—	47,792	—	—	220,229	—	—	—	—	—	220,229
—	—	—	—	—	—	72,100	—	—	—	—	—	72,100
—	—	—	—	—	—	15,153	—	—	—	—	—	15,153
—	—	—	—	—	—	370	78	(365)	—	—	—	83
56,330	29,681	34,347	46,648	101,367	8,987	850,123	—	—	—	—	—	850,123
—	—	—	—	—	—	1	—	—	—	—	—	1
\$ 105,740	\$ 38,429	\$ 46,187	\$ 105,271	\$ 152,271	\$ 25,169	\$ 1,504,088	\$ 8,024	\$ (365)	\$ —	\$ —	\$ —	\$ 1,511,747
 \$ 335	 \$ 112	 \$ 68	 \$ 300	 \$ 368	 \$ 1,425	 \$ 14,177	 \$ —	 \$ —	 \$ —	 \$ —	 \$ —	 \$ 14,177
 261	 929	 961	 180	 1,440	 530	 8,856	 —	 —	 —	 —	 —	 8,856
 —	 —	 —	 —	 —	 —	 72,465	 —	 (365)	 —	 —	 —	 72,100
 —	 —	 —	 —	 —	 —	 —	 —	 —	 —	 —	 —	 798
 596	 1,041	 1,029	 480	 1,808	 1,955	 95,498	 798	 (365)	 —	 —	 —	 95,931
 41,706	 1,107	 5,044	 3,099	 19,858	 22,634	 517,468	 78	 —	 —	 —	 —	 517,546
 49	 —	 —	 47,792	 —	 —	 220,229	 —	 —	 —	 —	 —	 220,229
 118	 —	 —	 (1,250)	 —	 —	 33,229	 —	 7,148	 —	 —	 —	 40,377
 5,778	 —	 —	 1,480	 23,756	 537	 277,262	 —	 —	 —	 —	 —	 277,262
 57,493	 36,281	 40,114	 53,670	 106,849	 43	 360,402	 —	 —	 —	 —	 —	 360,402
 105,144	 37,388	 45,158	 104,791	 150,463	 23,214	 1,408,590	 7,226	 —	 —	 —	 —	 1,415,816
 \$ 105,740	 \$ 38,429	 \$ 46,187	 \$ 105,271	 \$ 152,271	 \$ 25,169	 \$ 1,504,088	 \$ 8,024	 \$ (365)	 \$ —	 \$ —	 \$ —	 \$ 1,511,747

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2006

(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Wastewater	Health	Med-Quest	Human Services	Education
Revenues:							
Taxes:							
Transient accommodations tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Tobacco and liquor taxes	—	—	—	—	—	—	—
Liquid fuel tax	82,853	249	—	—	—	—	—
Tax on premiums of insurance companies	—	—	—	—	—	—	—
Vehicle weight and registration tax	51,506	—	—	4,595	—	—	—
Rental motor/tour vehicle surcharge tax	48,092	—	—	—	—	—	—
Franchise tax	—	—	—	—	—	—	—
Other	—	19,826	—	1,808	—	—	—
Total Taxes	182,451	20,075	—	6,403	—	—	—
Interest and investment income	14,635	3,650	8,187	3,214	235	73	676
Charges for current services	1,835	17,446	1,825	89,854	111	293	34,320
Intergovernmental	110,678	23,380	5,240	99,028	574,884	448,670	206,846
Rentals	—	3,794	—	—	—	—	33
Fines, forfeitures, and penalties	1,128	59	—	1,690	—	—	—
Licenses and fees	1,869	569	—	860	—	133	750
Revenues from private sources	—	—	—	34,863	—	—	74
Other	3,605	4,536	7,161	455	21,789	528	7,020
Total Revenues	316,201	73,509	22,413	236,367	597,019	449,697	249,719
Expenditures:							
Current:							
General government	—	4,418	—	—	—	—	—
Public safety	—	1,631	—	—	—	—	—
Highways	164,182	12	—	—	—	—	—
Conservation of natural resources	—	45,941	—	125	—	—	—
Health	—	83	9,851	214,573	—	—	—
Welfare	—	—	—	—	594,492	449,089	—
Lower education	—	—	—	—	—	—	244,799
Other education	—	—	—	—	—	12,298	—
Culture and recreation	—	6,774	—	—	—	—	4,545
Urban redevelopment and housing	—	—	—	—	—	—	—
Economic development and assistance	—	2,844	—	—	—	—	—
Other	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	—	—
Total Expenditures	164,182	61,703	9,851	214,698	594,492	461,387	249,344
Excess (Deficiency) of Revenues over Expenditures	152,019	11,806	12,562	21,669	2,527	(11,690)	375
Other Financing Sources (Uses):							
Transfers in	37	3,522	3,714	7,011	2,936	13,634	2,720
Transfers out	(154,423)	(3,318)	—	(8,269)	(6,785)	(6,245)	—
Total Other Financing Sources (Uses)	(154,386)	204	3,714	(1,258)	(3,849)	7,389	2,720
Net Change in Fund Balances	(2,367)	12,010	16,276	20,411	(1,322)	(4,301)	3,095
Fund Balances – Beginning	274,507	108,196	300,750	107,630	6,077	37,207	64,263
Fund Balances – Ending	\$ 272,140	\$ 120,206	\$ 317,026	\$ 128,041	\$ 4,755	\$ 32,906	\$ 67,358

See accompanying independent auditors' report.

Special Revenue Funds										Debt Service Fund		Total Nonmajor Governmental Funds	
Economic Development	Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total			Eliminations				
\$ 108,004	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 108,004	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 108,004	
—	—	—	—	1,434	—	1,434	—	—	—	—	—	1,434	
—	—	—	—	—	1,617	84,719	—	—	—	—	—	84,719	
—	—	1,710	—	—	—	1,710	—	—	—	—	—	1,710	
—	—	—	—	—	—	56,101	—	—	—	—	—	56,101	
—	—	—	—	—	—	48,092	—	—	—	—	—	48,092	
—	—	—	2,000	—	—	2,000	—	—	—	—	—	2,000	
—	1,039	—	—	—	—	22,673	—	—	—	—	—	22,673	
108,004	1,039	3,710	—	1,434	1,617	324,733	—	—	—	—	—	324,733	
3,138	1,463	1,430	933	2,107	407	40,148	—	—	—	—	—	40,148	
8,665	14,781	12,880	—	49,216	16,357	247,583	—	—	—	—	—	247,583	
14,723	43,687	—	6,397	28,567	30,953	1,593,053	—	—	—	—	—	1,593,053	
14,945	—	—	5,303	6,365	1,973	32,413	—	—	—	—	—	32,413	
—	783	1,300	—	222	1,968	7,150	—	—	—	—	—	7,150	
—	—	10,337	—	13,125	437	28,080	—	—	—	—	—	28,080	
—	—	—	—	580	—	35,517	—	—	—	—	—	35,517	
4,026	495	4,073	8,687	11,232	5,696	79,303	219	—	—	—	—	79,302	
153,501	62,248	33,730	21,320	112,848	59,408	2,387,980	219	—	—	—	—	2,388,199	
—	—	—	—	30,703	9,204	44,325	—	—	—	—	—	44,325	
—	1,835	30,106	—	9,051	53,682	96,305	—	—	—	—	—	96,305	
—	—	—	—	—	—	164,194	—	—	—	—	—	164,194	
—	—	—	—	64	—	46,130	—	—	—	—	—	46,130	
—	—	—	—	59	—	224,566	—	—	—	—	—	224,566	
—	—	—	—	10,897	334	1,054,812	—	—	—	—	—	1,054,812	
—	—	—	—	6,078	—	250,877	—	—	—	—	—	250,877	
—	—	—	—	—	—	12,298	—	—	—	—	—	12,298	
—	—	—	—	11,009	10,147	32,475	—	—	—	—	—	32,475	
—	—	—	16,239	—	—	16,239	—	—	—	—	—	16,239	
99,217	60,780	—	—	46	—	162,887	—	—	—	—	—	162,887	
—	—	—	—	4,634	—	4,634	—	—	—	—	—	4,634	
—	—	—	—	—	—	—	447,577	—	—	—	—	447,577	
99,217	62,615	30,106	16,239	72,541	73,367	2,109,742	447,577	—	—	—	—	2,557,319	
54,284	(367)	3,624	5,081	40,307	(13,959)	278,238	(447,358)	—	—	—	—	(169,120)	
200	320	2,592	—	12,601	19,237	68,524	454,400	(129,660)	—	—	—	393,264	
(25,947)	(362)	(2,556)	(1,641)	(22,848)	(3,657)	(236,051)	—	129,660	—	—	—	(106,391)	
(25,747)	(42)	36	(1,641)	(10,247)	15,580	(167,527)	454,400	—	—	—	—	286,873	
28,537	(409)	3,660	3,440	30,060	1,621	110,711	7,042	—	—	—	—	117,753	
76,607	37,797	41,498	101,351	120,403	21,593	1,297,879	184	—	—	—	—	1,298,063	
\$ 105,144	\$ 37,388	\$ 45,158	\$ 104,791	\$ 150,463	\$ 23,214	\$ 1,408,590	\$ 7,226	\$ —	\$ —	\$ —	\$ —	\$ 1,415,816	

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, 2006

(Amounts in thousands)

	Highways		Variance – Over (Under)
	Budget	Actual (Budgetary Basis)	
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ 84,163	\$ 82,853	\$ (1,310)
Boating	—	—	—
Vehicle registration fee tax	19,753	20,766	1,013
State vehicle weight tax	28,221	30,741	2,520
Rental motor/tour vehicle surcharge tax	42,666	50,582	7,916
Employment and training fund assessment	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	174,803	184,942	10,139
Non-taxes:			
Interest and investment income	10,900	14,369	3,469
Charges for current services	19,459	1,835	(17,624)
Intergovernmental	107,600	110,678	3,078
Rentals	2	—	(2)
Fines, forfeitures, and penalties	1,059	1,128	69
Licenses and fees	1,814	1,869	55
Revenues from private sources	—	—	—
Other	—	32,106	32,106
Total Non-taxes	140,834	161,985	21,151
Total Revenues	315,637	346,927	31,290
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	310,187	234,373	(75,814)
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	310,187	234,373	(75,814)
Excess (Deficiency) of Revenues over Expenditures	\$ 5,450	\$ 112,554	\$ 107,104

See accompanying independent auditors' report.

Natural Resources			Wastewater		
Budget	Actual (Budgetary Basis)	Variance – Over (Under)	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
\$ 220	\$ 249	\$ 29	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
4,050	19,826	15,776	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
1,000	—	(1,000)	—	—	—
—	—	—	—	—	—
5,270	20,075	14,805	—	—	—
1,943	2,692	749	7,179	8,187	1,008
15,713	17,446	1,733	1,654	1,825	171
10,449	23,380	12,931	18,903	4,836	(14,067)
2,527	3,794	1,267	—	—	—
78	59	(19)	—	—	—
610	569	(41)	—	—	—
1	—	(1)	—	—	—
2,497	5,118	2,621	10,162	15,318	5,156
33,818	53,058	19,240	37,898	30,166	(7,732)
39,088	73,133	34,045	37,898	30,166	(7,732)
3,724	3,724	—	—	—	—
3,295	1,471	(1,824)	—	—	—
—	—	—	—	—	—
54,150	39,902	(14,248)	—	—	—
—	84	84	95,809	89,420	(6,389)
—	—	—	—	—	—
—	—	—	—	—	—
8,131	6,855	(1,276)	—	—	—
—	—	—	—	—	—
1,604	1,245	(359)	—	—	—
—	—	—	—	—	—
70,904	53,281	(17,623)	95,809	89,420	(6,389)
\$ (31,816)	\$ 19,852	\$ 51,668	\$ (57,911)	\$ (59,254)	\$ (1,343)

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, 2006

(Amounts in thousands)

	Health		Variance – Over (Under)
	Budget	Actual (Budgetary Basis)	
Revenues:			
Taxes:			
Liquid fuel tax:	\$	\$	\$
Highways	—	—	—
Boating	—	—	—
Vehicle registration fee tax	4,800	4,595	(205)
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	1,800	1,808	8
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	<u>6,600</u>	<u>6,403</u>	<u>(197)</u>
Non-taxes:			
Interest and investment income	1,543	3,173	1,630
Charges for current services	59,933	89,853	29,920
Intergovernmental	96,204	99,432	3,228
Rentals	—	—	—
Fines, forfeitures, and penalties	647	1,690	1,043
Licenses and fees	654	860	206
Revenues from private sources	42,155	34,863	(7,292)
Other	79	2,245	2,166
Total Non-taxes	<u>201,215</u>	<u>232,116</u>	<u>30,901</u>
Total Revenues	<u>207,815</u>	<u>238,519</u>	<u>30,704</u>
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	300	299	(1)
Health	282,870	227,189	(55,681)
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	<u>283,170</u>	<u>227,488</u>	<u>(55,682)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (75,355)</u>	<u>\$ 11,031</u>	<u>\$ 86,386</u>

See accompanying independent auditors' report.

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, 2006

(Amounts in thousands)

	Education		Variance – Over (Under)
	Budget	Actual (Budgetary Basis)	
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	—	—	—
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	418	669	251
Charges for current services	29,377	34,320	4,943
Intergovernmental	188,125	206,846	18,721
Rentals	28	33	5
Fines, forfeitures, and penalties	—	—	—
Licenses and fees	732	750	18
Revenues from private sources	115	74	(41)
Other	1,780	8,671	6,891
Total Non-taxes	220,575	251,363	30,788
Total Revenues	220,575	251,363	30,788
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	426,131	254,742	(171,389)
Other education	—	—	—
Culture and recreation	5,885	4,800	(1,085)
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	432,016	259,542	(172,474)
Excess (Deficiency) of Revenues over Expenditures	\$ (211,441)	\$ (8,179)	\$ 203,262

See accompanying independent auditors' report.

Economic Development			Employment		
Budget	Actual (Budgetary Basis)	Variance – Over (Under)	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
\$	\$		\$	\$	
—	—		—	—	
—	—		—	—	
—	—		—	—	
—	—		—	—	
—	—		900	1,039	139
—	—		—	—	
—	—		—	—	
—	—		—	—	
—	—		—	—	
98,867	103,404	4,537	—	—	—
—	—	—	—	—	—
98,867	103,404	4,537	900	1,039	139
585	3,067	2,482	890	1,449	559
7,791	8,665	874	18,000	14,781	(3,219)
15,108	14,723	(385)	48,317	43,687	(4,630)
14,133	14,945	812	—	—	—
—	—	—	100	783	683
—	—	—	—	—	—
—	—	—	—	—	—
6,015	34,268	28,253	6	1,373	1,367
—	—	—	—	—	—
43,632	75,668	32,036	67,313	62,073	(5,240)
—	—	—	—	—	—
142,499	179,072	36,573	68,213	63,112	(5,101)
—	—	—	—	—	—
1,350	250	(1,100)	2,180	1,832	(348)
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
163,500	132,636	(30,864)	112,124	62,401	(49,723)
—	—	—	—	—	—
164,850	132,886	(31,964)	114,304	64,233	(50,071)
\$	\$	\$	\$	\$	\$
(22,351)	46,186	68,537	(46,091)	(1,121)	44,970

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, 2006

(Amounts in thousands)

		Regulatory		
		Actual (Budgetary Basis)	Variance – Over (Under)	
	Budget			
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		—	—	—
Tobacco tax		—	—	—
Conveyances tax		—	—	—
Environmental response tax		—	—	—
Franchise tax	2,000	2,000	—	—
Transient accommodations tax		—	—	—
Tax on premiums of insurance companies	1,600	1,710	110	110
Total Taxes	3,600	3,710	110	110
Non-taxes:				
Interest and investment income	674	1,416	742	742
Charges for current services	14,421	12,880	(1,541)	(1,541)
Intergovernmental	—	—	—	—
Rentals	—	—	—	—
Fines, forfeitures, and penalties	951	1,300	349	349
Licenses and fees	10,127	10,337	210	210
Revenues from private sources	—	—	—	—
Other	2,592	6,665	4,073	4,073
Total Non-taxes	28,765	32,598	3,833	3,833
Total Revenues	32,365	36,308	3,943	3,943
Expenditures:				
General government	19	—	(19)	(19)
Public safety	43,776	33,963	(9,813)	(9,813)
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	43,795	33,963	(9,832)	(9,832)
Excess (Deficiency) of Revenues over Expenditures	\$ (11,430)	\$ 2,345	\$ 13,775	\$ 13,775

See accompanying independent auditors' report.

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, 2006

(Amounts in thousands)

	Budget	Actual (Budgetary Basis)	All Other	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	—	—	—	—
Tobacco tax	—	—	—	—
Conveyances tax	—	—	—	—
Environmental response tax	—	—	—	—
Franchise tax	—	—	—	—
Transient accommodations tax	—	—	—	—
Tax on premiums of insurance companies	—	—	—	—
Total Taxes	1,300	1,617		317
Non-taxes:				
Interest and investment income	354	403	49	
Charges for current services	15,711	16,357	646	
Intergovernmental	38,428	30,953	(7,475)	
Rentals	1,115	1,973	858	
Fines, forfeitures, and penalties	2,683	1,968	(715)	
Licenses and fees	395	437	42	
Revenues from private sources	—	—	—	
Other	5,876	14,496	8,620	
Total Non-taxes	64,562	66,587	2,025	
Total Revenues	65,862	68,204	2,342	
Expenditures:				
General government	13,880	11,358	(2,522)	
Public safety	113,449	63,988	(49,461)	
Highways	—	—	—	
Conservation of natural resources	—	—	—	
Health	150	—	(150)	
Welfare	550	339	(211)	
Lower education	—	—	—	
Other education	—	—	—	
Culture and recreation	16,771	11,427	(5,344)	
Urban redevelopment and housing	—	—	—	
Economic development and assistance	—	—	—	
Other	—	—	—	
Total Expenditures	144,800	87,112	(57,688)	
Excess (Deficiency) of Revenues over Expenditures	\$ (78,938)	\$ (18,908)	\$ 60,030	

See accompanying independent auditors' report.

Budget	Total		Variance – Over (Under)
	Actual (Budgetary Basis)		
\$ 84,383	\$ 83,102	\$ (1,281)	
1,300	1,617	317	
24,553	25,361	808	
28,221	30,741	2,520	
42,666	50,582	7,916	
900	1,039	139	
1,145	1,434	289	
4,050	19,826	15,776	
1,800	1,808	8	
2,000	2,000	—	
99,867	103,404	3,537	
1,600	1,710	110	
<u>292,485</u>	<u>322,624</u>	<u>30,139</u>	
26,012	38,863	12,851	
210,501	247,583	37,082	
1,389,978	1,408,110	18,132	
30,688	32,413	1,725	
5,768	7,150	1,382	
26,290	28,080	1,790	
42,621	35,517	(7,104)	
47,716	957,932	910,216	
<u>1,779,574</u>	<u>2,755,648</u>	<u>976,074</u>	
<u>2,072,059</u>	<u>3,078,272</u>	<u>1,006,213</u>	
581,871	541,793	(40,078)	
187,929	113,621	(74,308)	
310,187	234,373	(75,814)	
54,825	40,273	(14,552)	
378,876	316,736	(62,140)	
959,756	868,150	(91,606)	
432,631	260,469	(172,162)	
12,561	11,112	(1,449)	
44,206	34,189	(10,017)	
21,818	15,057	(6,761)	
277,235	196,287	(80,948)	
297,791	289,026	(8,765)	
<u>3,559,686</u>	<u>2,921,086</u>	<u>(638,600)</u>	
<u>\$ (1,487,627)</u>	<u>\$ 157,186</u>	<u>\$ 1,644,813</u>	

STATE OF HAWAII

Nonmajor Special Revenue Funds
Reconciliation of the Budgetary to GAAP Basis

June 30, 2006

(Amounts in thousands)

Excess of revenues over expenditures – actual (budgetary basis)	\$ 157,186
Reserve for encumbrances at year-end*	372,370
Expenditures for liquidation of prior fiscal year encumbrances	(280,426)
Expenditures for unbudgeted programs, principally expenditures for capital projects accounts and revolving funds	(51,144)
Transfers	77,887
Accrued liabilities	(217,622)
Accrued revenues	<u>219,987</u>
Excess of revenues over expenditures – GAAP basis	<u>\$ 278,238</u>

* 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, 2006

(Amounts in thousands)

ASSETS	Agency Funds			Total Agency Funds
	Tax Collections	Custodial	Other	
Cash and short-term investments	\$ 2,786	\$ 65,400	\$ 13,452	\$ 81,638
Receivables:				
Taxes	—	—	11,700	11,700
Accrued interest	—	169	144	313
Total Receivables	—	169	11,844	12,013
Due from individuals, businesses, and counties	13,698	—	—	13,698
Investments:				
Repurchase agreements	—	3,898	3,304	7,202
U.S. government securities	—	34,687	29,402	64,089
Certificates of deposit	—	390	330	720
Total Investments	—	38,975	33,036	72,011
Total Assets	\$ 16,484	\$ 104,544	\$ 58,332	\$ 179,360
LIABILITIES				
Vouchers payable	\$ 16,484	\$ 3,026	\$ 145	\$ 19,655
Due to individuals, businesses, and counties	—	101,518	58,187	159,705
Total Liabilities	\$ 16,484	\$ 104,544	\$ 58,332	\$ 179,360

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, 2006

(Amounts in thousands)

	<u>Balance, July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2006</u>
Tax Collections:				
Assets:				
Cash and short-term investments	\$ 2,461	\$ 5,822,926	\$ (5,822,601)	\$ 2,786
Due from individuals, businesses, and counties	—	5,836,625	(5,822,927)	13,698
Total Assets	\$ 2,461	\$ 11,659,551	\$ (11,645,528)	\$ 16,484
Liabilities:				
Vouchers payable	\$ 48	\$ 16,484	\$ (48)	\$ 16,484
Due to individuals, businesses, and counties	2,413	—	(2,413)	—
Total Liabilities	\$ 2,461	\$ 16,484	\$ (2,461)	\$ 16,484
Custodial:				
Assets:				
Cash and short-term investments	\$ 106,904	\$ 3,093,333	\$ (3,134,837)	\$ 65,400
Receivables	296	169	(296)	169
Investments	2,876	38,975	(2,876)	38,975
Total Assets	\$ 110,076	\$ 3,132,477	\$ (3,138,009)	\$ 104,544
Liabilities:				
Vouchers payable	\$ 965	\$ 3,026	\$ (965)	\$ 3,026
Due to individuals, businesses, and counties	109,111	3,093,206	(3,100,799)	101,518
Total Liabilities	\$ 110,076	\$ 3,096,232	\$ (3,101,764)	\$ 104,544
Other:				
Assets:				
Cash and short-term investments	\$ 38,598	\$ 27,909	\$ (53,055)	\$ 13,452
Receivables	8,504	11,844	(8,504)	11,844
Investments	999	33,036	(999)	33,036
Total Assets	\$ 48,101	\$ 72,789	\$ (62,558)	\$ 58,332
Liabilities:				
Vouchers payable	\$ 394	\$ 145	\$ (394)	\$ 145
Due to individuals, businesses, and counties	47,707	31,248	(20,768)	58,187
Total Liabilities	\$ 48,101	\$ 31,393	\$ (21,162)	\$ 58,332
Total – All Agency Funds:				
Assets:				
Cash and short-term investments	\$ 147,963	\$ 8,944,168	\$ (9,010,493)	\$ 81,638
Receivables	8,800	12,013	(8,800)	12,013
Due from individuals, businesses, and counties	—	5,836,625	(5,822,927)	13,698
Investments	3,875	72,011	(3,875)	72,011
Total Assets	\$ 160,638	\$ 14,864,817	\$ (14,846,095)	\$ 179,360
Liabilities:				
Vouchers payable	\$ 1,407	\$ 19,655	\$ (1,407)	\$ 19,655
Due to individuals, businesses, and counties	159,231	3,124,454	(3,123,980)	159,705
Total Liabilities	\$ 160,638	\$ 3,144,109	\$ (3,125,387)	\$ 179,360

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 March 1, 2007 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, 2007	@	315,000.00	315,000.00
December 6, 1988	\$ 65,000,954.43, Series BL, non-callable (compound interest bonds)	7.681% December 1, 2007 7.681% December 1, 2008		@	4,060,531.65 4,065,039.05	8,125,570.70
November 28, 1989	\$ 80,005,159.73, Series BQ, callable (certain maturities bear compound interest, non-callable)	7.150% December 1, 2007 7.150% December 1, 2008 7.150% December 1, 2009		@	4,444,776.00 4,444,432.49 4,444,540.00	13,333,748.49
March 1, 1992	\$ 100,000,000, Series BW, noncallable	6.400% 6.375% 6.250%	March 1, 2008 March 1, 2011 March 1, 2012	@ @ @	5,555,000.00 5,460,000.00 5,555,000.00	16,570,000.00
October 1, 1992	\$ 200,000,000 Series BZ, noncallable	6.000%	October 1, 2007	- 2012 @	12,500,000.00	75,000,000.00
January 1, 1993	\$ 90,000,000 Series CA, noncallable	5.750% 6.000% 5.750% 5.500% 8.000%	January 1, 2008 January 1, 2009 January 1, 2010 January 1, 2012 January 1, 2013	@ @ - 2011 @ @ @	5,000,000.00 5,000,000.00 5,000,000.00 5,000,000.00 5,000,000.00	30,000,000.00
January 1, 1993	\$ 107,845,000 Series CB, noncallable (refunding)	5.750%	January 1, 2008	@	8,295,000.00	8,295,000.00
February 1, 1993	\$ 334,860,000 Series CC, callable (refunding)	5.125%	February 1, 2008	- 2009 @	23,915,000.00	47,830,000.00
November 1, 1993	\$ 250,000,000, Series CH, noncallable	6.000% November 1, 2007 6.000% November 1, 2010 4.750% November 1, 2011	- 2009 @ @ - 2013 @	13,890,000.00 13,885,000.00 13,885,000.00	97,210,000.00	
November 1, 1993	\$ 316,915,000, Series CI, noncallable (refunding)	4.700% November 1, 2007 4.750% November 1, 2008 4.900% November 1, 2010	@ - 2009 @ @	21,125,000.00 21,125,000.00 21,125,000.00	84,500,000.00	
March 1, 1996	\$ 100,000,000, Series CL, callable	6.000% 6.000%	March 1, 2008 March 1, 2011	- 2009 @ @	5,555,000.00 5,555,000.00	16,665,000.00

Date of Issue		Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
December 1, 1996	\$	150,000,000, Series CM, noncallable	6.000%	December 1, 2007	-	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
							83,320,000.00
March 1, 1997	\$	350,000,000, Series CN, callable	6.250%	March 1, 2008		@	19,655,000.00
			6.000%	March 1, 2009		@	20,045,000.00
							39,700,000.00
March 1, 1997	\$	231,755,000, Series CO, noncallable (refunding)	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
							95,505,000.00
October 1, 1997	\$	200,000,000, Series CP, callable	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
							71,830,000.00
April 1, 1998	\$	300,000,000, Series CR, callable	5.500%	April 1, 2007		@	15,170,000.00
			5.750%	April 1, 2008		@	7,955,000.00
							23,125,000.00
April 1, 1998	\$	336,620,000, Series CS, noncallable (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
							158,910,000.00
September 15, 1999	\$	300,000,000, Series CT, callable	5.250%	September 1, 2008		@	14,310,000.00
			5.250%	September 1, 2009		@	15,080,000.00
			5.625%	September 1, 2012		@	5,315,000.00
							48,285,000.00
October 15, 2000	\$	150,000,000, Series CU, callable	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

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Outstanding Principal
			and Amount Due		
		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 43,915,000.00
August 1, 2001	\$ 300,000,000, Series CV, callable	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	@	20,485,000.00 231,995,000.00
August 1, 2001	\$ 156,750,000, Series CW, callable (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	@	12,475,000.00 129,030,000.00
February 1, 2002	\$ 250,000,000, Series CX, callable	3.800%	February 1, 2008	@	11,240,000.00
		4.000%	February 1, 2009	@	11,665,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Outstanding Principal
				and Amount Due	
		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
					190,795,000.00
February 1, 2002	\$ 319,290,000, Series CY, noncallable (refunding)	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
					288,955,000.00
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

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

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Outstanding Principal
			and Amount Due		
		5.000%	September 1, 2009	@	11,370,000.00
		5.000%	September 1, 2010	@	18,770,000.00
		5.000%	September 1, 2011	@	19,730,000.00
		5.000%	September 1, 2012	@	20,740,000.00
		4.250%	September 1, 2013	@	3,380,000.00
		5.250%	September 1, 2013	@	18,435,000.00
		4.000%	September 1, 2014	@	5,000,000.00
		5.250%	September 1, 2014	@	17,945,000.00
		5.250%	September 1, 2015	@	24,150,000.00
		5.250%	September 1, 2016	@	25,450,000.00
					188,650,000.00
May 13, 2004	\$ 225,000,000, Series DD, callable	3.500%	May 1, 2011	@	2,140,000.00
		3.700%	May 1, 2012	@	1,195,000.00
		5.000%	May 1, 2012	@	9,825,000.00
		3.800%	May 1, 2013	@	1,090,000.00
		5.000%	May 1, 2013	@	10,465,000.00
		4.000%	May 1, 2014	@	4,060,000.00
		5.250%	May 1, 2014	@	8,055,000.00
		4.125%	May 1, 2015	@	2,295,000.00
		5.250%	May 1, 2015	@	10,410,000.00
		4.200%	May 1, 2016	@	790,000.00
		5.000%	May 1, 2016	@	7,725,000.00
		4.250%	May 1, 2017	@	575,000.00
		5.000%	May 1, 2017	@	13,430,000.00
		4.300%	May 1, 2018	@	460,000.00
		5.000%	May 1, 2018	@	5,230,000.00
		4.400%	May 1, 2019	@	610,000.00
		5.000%	May 1, 2019	@	14,825,000.00
		4.500%	May 1, 2020	@	250,000.00
		5.000%	May 1, 2020	@	15,950,000.00
		5.000%	May 1, 2021	@	17,010,000.00
		5.250%	May 1, 2022	@	17,860,000.00
		4.750%	May 1, 2023	@	1,150,000.00
		5.250%	May 1, 2023	@	17,645,000.00
		4.800%	May 1, 2024	@	2,045,000.00
		5.250%	May 1, 2024	@	17,735,000.00
					182,825,000.00
November 10, 2004	\$ 225,000,000 Series DE, callable	5.000%	October 1, 2009	@	2,960,000.00
		2.625%	October 1, 2009	@	6,815,000.00
		5.000%	October 1, 2010	@	5,090,000.00
		3.000%	October 1, 2010	@	5,050,000.00
		5.000%	October 1, 2011	@	5,715,000.00
		3.000%	October 1, 2011	@	4,845,000.00
		5.000%	October 1, 2012	@	8,250,000.00
		3.250%	October 1, 2012	@	2,775,000.00
		5.000%	October 1, 2013	@	10,610,000.00

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

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Outstanding Principal
			and Amount Due		
June 15, 2005	\$ 722,575,000 Series DG	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
		5.000%	July 1, 2009	@	65,185,000.00
		5.000%	July 1, 2010	@	68,530,000.00
March 23, 2006	\$ 350,000,000 Series DI, callable	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
		3.500%	March 1, 2010	@	8,980,000.00
		5.000%	March 1, 2010	@	4,945,000.00
		3.625%	March 1, 2011	@	7,410,000.00
		4.000%	March 1, 2011	@	950,000.00
		5.000%	March 1, 2011	@	6,125,000.00
		3.750%	March 1, 2012	@	7,600,000.00
		5.000%	March 1, 2012	@	7,500,000.00
		3.800%	March 1, 2013	@	4,170,000.00
		4.000%	March 1, 2013	@	2,250,000.00
		5.500%	March 1, 2013	@	9,340,000.00
		3.900%	March 1, 2014	@	1,390,000.00
		5.000%	March 1, 2014	@	15,130,000.00
		3.900%	March 1, 2015	@	1,065,000.00
		4.500%	March 1, 2015	@	4,000,000.00
		5.000%	March 1, 2015	@	12,270,000.00
		4.000%	March 1, 2016	@	7,135,000.00
		5.000%	March 1, 2016	@	11,030,000.00
		4.000%	March 1, 2017	@	1,705,000.00
		5.000%	March 1, 2017	@	17,300,000.00
		4.000%	March 1, 2018	@	885,000.00
		5.000%	March 1, 2018	@	19,050,000.00
		4.125%	March 1, 2019	@	235,000.00
		5.000%	March 1, 2019	@	20,690,000.00
		4.125%	March 1, 2020	@	340,000.00
		5.000%	March 1, 2020	@	21,630,000.00
		4.200%	March 1, 2021	@	105,000.00
		5.000%	March 1, 2021	@	22,960,000.00
		4.250%	March 1, 2022	@	135,000.00
		5.000%	March 1, 2022	@	24,080,000.00
		5.000%	March 1, 2023	@	25,425,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates		Outstanding Principal
			and Amount Due	@	
		4.250%	March 1, 2024	@	50,000.00
		5.000%	March 1, 2024	@	26,650,000.00
		5.000%	March 1, 2025	@	28,035,000.00
		4.300%	March 1, 2026	@	460,000.00
		5.000%	March 1, 2026	@	28,975,000.00
					350,000,000.00

Total of all State of Hawaii general obligation bonds and general obligation refunding bonds issued and outstanding:\$4,086,124,319.19.

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APPENDIX E
FORM OF CONTINUING DISCLOSURE CERTIFICATE

State of Hawaii

Dated April 3, 2007

**\$350,000,000
General Obligation Bonds
of 2007, Series DJ**

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 2007, Series DJ (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, depositaries 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, 2007, 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 2007, Series DJ

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

April __, 2007

State of Hawaii
Honolulu, Hawaii

State of Hawaii

Dated April __, 2007

**\$350,000,000
General Obligation Bonds
of 2007, Series DJ**

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 2007, Series DJ (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 March 28, 2007 (the "Certificate"), and various acts of the Legislature of the State identified in the Certificate.

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

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

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

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code").

The rights and obligations under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and

other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute valid general obligations of the State.
2. The Certificate has been duly executed and delivered by the Director of Finance and constitutes the valid obligation of the State.
3. Interest and principal payments on the Bonds are a first charge on the general fund of the State to the punctual payment of which the full faith and credit of the State are pledged.
4. Interest on the Bonds (including original issue discount treated as interest, if any) is excluded from gross income for federal income tax purposes, and is not an specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for certain corporations, interest on the Bonds is included in the "adjusted current earnings" (i.e., alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Code), and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).
5. Interest on the Bonds is exempt from all taxation by the State 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.

Very truly yours,

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

APPENDIX G

BOOK-ENTRY SYSTEM

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

EXHIBIT H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncancel and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holders' rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncancel and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and therefore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

Robert J. Luska

Effective Date:

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Anne G. Gill

Secretary

Authorized Representative

Morinda L. Fazio

Authorized Officer of Insurance Trustee

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**ADDENDUM DATED APRIL 30, 2007
TO OFFICIAL STATEMENT DATED MARCH 28, 2007**

**STATE OF HAWAII
\$350,000,000
GENERAL OBLIGATION BONDS
OF 2007, SERIES DJ**

The State of Hawaii hereby supplements “EMPLOYEE RELATIONS; STATE EMPLOYEES’ RETIREMENT SYSTEM–Other Post Employment Benefits” in Appendix A of the above-referenced Official Statement as follows:

The State has received the State of Hawaii Employer–Union Trust Fund (“Trust Fund”) July 1, 2006 Actuarial Valuation Study (the “Trust Fund Report”) of the Trust Fund’s Other Postemployment Benefits (“OPEBs”) and the State of Hawaii Voluntary Employees’ Beneficiary Association (“VEBA”) Trust for the Hawaii State Teachers Association July 1, 2006 Actuarial Valuation Study (the “VEBA Report,” and, together with the Trust Fund Report, the “Reports”) of VEBA’s OPEBs. The employers participating in the Trust Fund include the State and each of its counties (collectively, the “System”). The Reports were prepared by the State’s professional actuarial advisors, Aon Consulting Inc. The Reports quantify the Actuarial Accrued Liabilities (“AAL”) of the respective employers under GASB 43 and 45 and develop Annual Required Contributions (“ARC”) as the basis for determining the amounts that the respective employers will report under GASB 43, effective for the fiscal year ending June 30, 2007, and will recognize in annual expense under GASB 45, effective for the fiscal year ending June 30, 2008. The Reports’ results (based on stated actuarial assumptions) show costs under two scenarios: (1) no prefunding of the ARC and (2) full prefunding of the ARC. The Trust Fund Report states that the System AALs for the two scenarios as of July 1, 2006 are \$9,678.8 million and \$6,269.5 million, respectively. Subject to the Trust Fund’s ultimate determination of its billings to the System, the Trust Fund Report estimates that the corresponding annual OPEB costs for the fiscal year ending June 30, 2007 would be \$705.3 million and \$514 million, respectively. The estimated Trust Fund pay-as-you-go funding amount for such fiscal year is \$247.0 million. The VEBA Report states that the VEBA AALs for the two scenarios as of July 1, 2006 are \$1,406.1 million and \$778.9 million, respectively. Subject to the State’s ultimate determination of whether it does not prefund or fully prefunds the VEBA ARC, the VEBA Report estimates that the corresponding ARCs for the fiscal year ending June 30, 2007 would be \$135.9 million and \$78.2 million, respectively. The estimated VEBA pay-as-you-go funding amount for such fiscal year is \$2.9 million.

The State has commenced its analysis of the alternatives available to it in the light of the GASB 43 and 45 standards and the information contained in the Reports. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis until the completion of the analysis and any necessary determinations and approvals regarding the future funding of OPEB costs by the executive and legislative branches.