

STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006



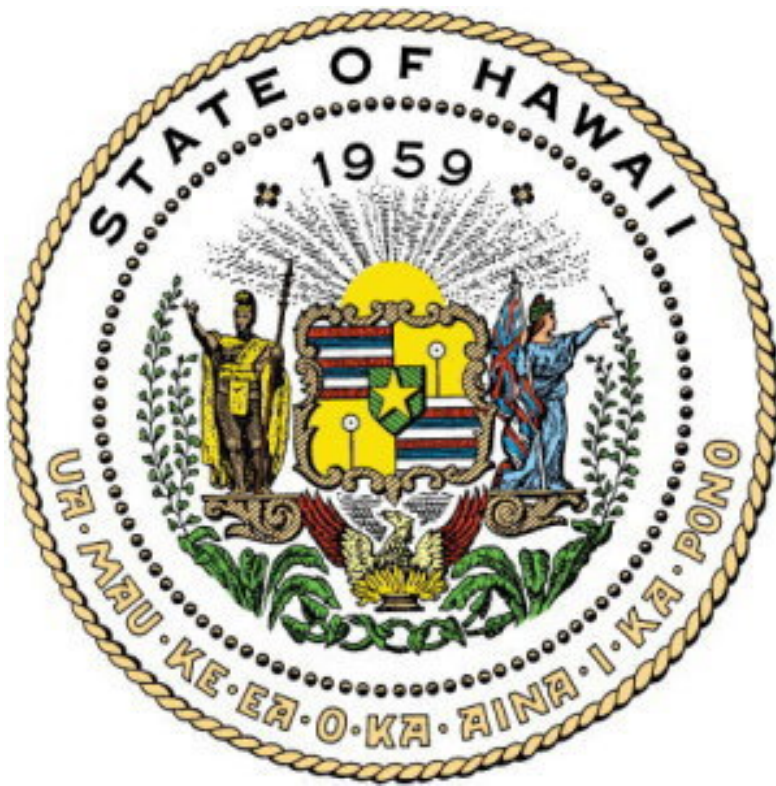
RUSS K. SAITO

COMPTROLLER

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

STATE OF HAWAII

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PART I: INTRODUCTORY SECTION

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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2006



Russ K. Saito
Comptroller

Governor
Director of Finance
Director of Taxation
Comptroller

Linda Lingle
Georgina Kawamura
Kurt Kawafuchi
Russ K. Saito

Notes:

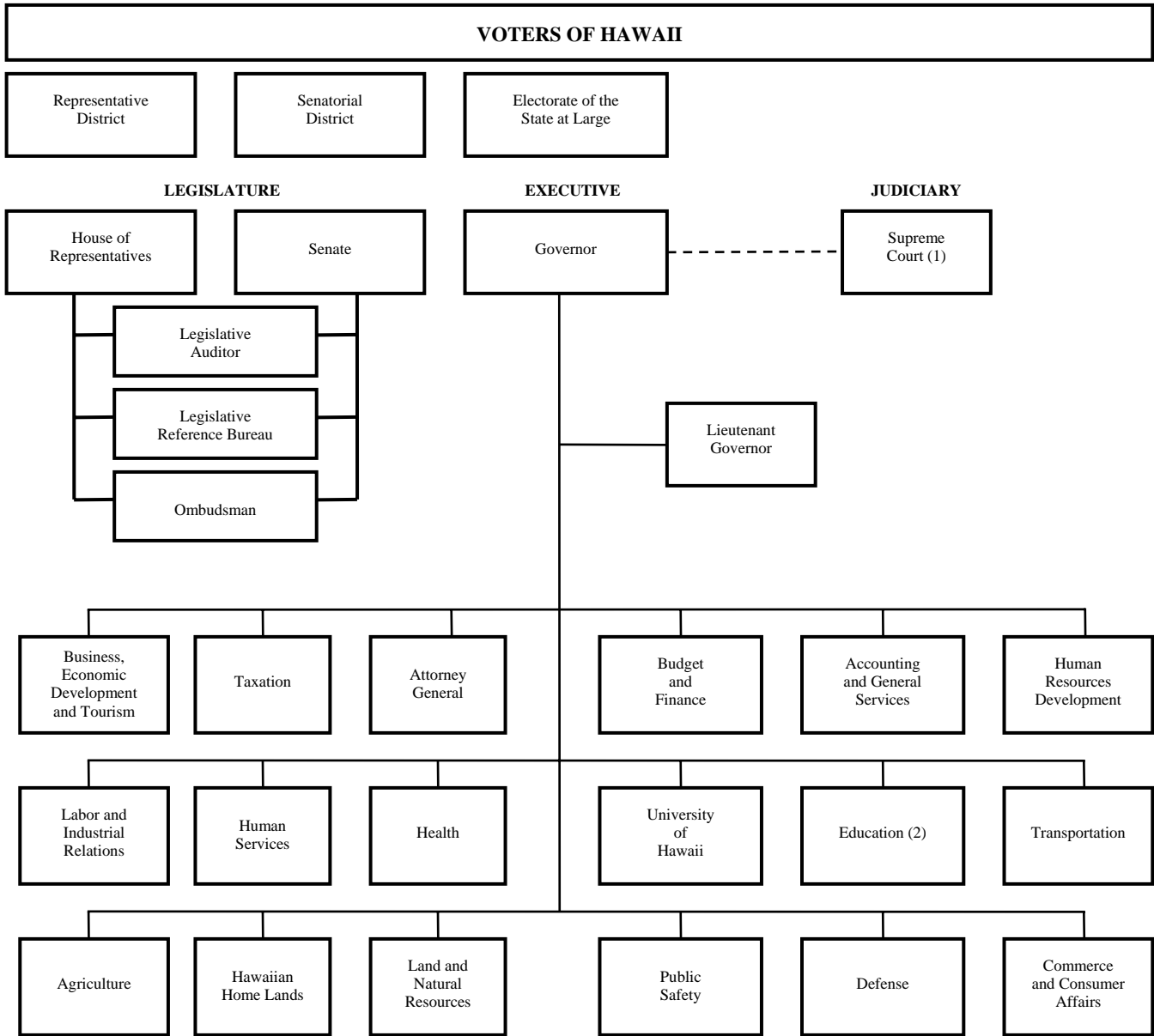
The Director of Finance is also department head of the Department of Budget and Finance.

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

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

STATE OF HAWAII
Organizational Chart

June 30, 2006



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

(2) The Board of Education is elected.



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

March 15, 2007

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

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is my privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (State) for the fiscal year ended June 30, 2006. This report has been prepared by the State's Department of Accounting and General Services. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. I believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

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

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

THE REPORTING ENTITY AND ITS SERVICES

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

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

FACTORS AFFECTING FINANCIAL CONDITION

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

State of the Economy

Overview

Indicators of the State's economy in the third quarter continued to reflect the strong economic position in 2006, but the growth rates in many areas are somewhat lower than in the previous two years. Employment and job growth continue to be very strong, which should lead to income growth for Hawaii's households and tax revenues for the State. The State's unemployment rate continued to be the lowest in the nation. Total visitor arrivals slowed in the third quarter, bringing the year-to-date growth to a meager 0.2%. Building permit values also slowed in the third quarter and although construction jobs continued to increase, the pace of growth has slowed from the rapid growth of the previous year.

Labor

Hawaii's total civilian employment averaged 631,450 persons during the first nine months of 2006, up 2.9% from the same period of 2005. Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 2.8% in the first eight months of 2006. According to the Bureau of Labor Statistics, at 2.8%, Hawaii had the lowest unemployment rate in the nation in August 2006. Hawaii's total civilian wage and salary jobs grew 2.7% to 620,550 during the first eight months of 2006, a gain of 16,600 jobs over the first eight months of 2005. All private non-agricultural sectors showed job growth during the first eight months of 2006, most notably professional and business services; natural resources, construction, and mining; transportation and utilities; retail trade; and accommodation and food service, while agricultural wage and salary jobs decreased 9.8%, averaging about 6,250 jobs.

Taxes

Tax revenues distributed to the State's General Fund were up \$159.9 million, or 4.9%, during the first two quarters of 2006 compared to the same period in 2005. Among its components, general excise and use tax (GET) collections were up \$118.1 million, or 6.9%, individual net income tax collections up \$102.5 million, or 9.3%, and transient accommodations tax (TAT) collections up \$11.0 million, or 6.8%.

Personal Income

Total nominal personal income, not adjusted for inflation, increased \$2.8 billion, or 6.4%, in the first six months of 2006 compared to the same period of 2005. Among its components, the fastest growth was seen in wages and salaries (7.3%), followed by dividends, interest, and rent (6.6%), proprietors' income (6.0%), personal current transfer receipts (5.4%), and supplements to wages and salaries (5.2%). Contributions for government social insurance, subtracted from personal income, increased by 9.1%.

Prices

Honolulu's consumer price index (CPI) increased 5.8% in the first half of 2006, the highest increase since 1991. This increase was significantly higher than the 4.5% increase for the second half of 2005 and the 3.8% increase for all of 2005. In the first half of 2006, the increase in Honolulu's CPI was 2.0% points higher than the United States (U.S.) average of 3.8%. The Honolulu increase was primarily due to a big jump in the housing and transportation (mostly fuels) components, which increased by 8.5% and 7.1%, respectively.

Recent Developments in Hawaii's Major Industries

Visitor Industry

The number of visitors arriving by air was up 0.1% during the first nine months of 2006 compared to the same period of 2005. Domestic visitor arrivals were up 2.5%, while international arrivals (visitors on flights originating outside of the U.S.) were down 5.9%. Similarly, total visitor days (visitor arrivals multiplied by average length of stay) were up 0.2% during the first nine months of 2006 compared to the same period last year. Total visitor spending rose 3.8%, largely due to a 3.6% increase in per person per day spending. Statewide hotel occupancy rate averaged 81.6% in the first nine months of 2006, 0.7% lower than in the same period of 2005.

Construction

Hawaii's construction industry continued to show robust growth in the first half of 2006. In the first six months of 2006, the natural resources, mining, and construction sector added 3,150 jobs to the State's economy, a 9.7% job growth from the first six months of 2005. Total value of private building authorizations increased 17.2% to nearly \$1.7 billion. In the first six months of 2006, government contracts awarded totaled nearly \$472 million, a 47.8% increase from the same period of 2005.

Outlook for Hawaii's Economy

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy expects both real (inflation-adjusted) Personal Income growth and real Gross State Product (GSP) growth to be positive in 2006, but due to sharp increases in price levels, the rate of growth is projected to be lower than in the previous two years.

The latest consensus forecasts provide optimistic outlook for both the U.S. and Japanese economies, which influence Hawaii the most. The September 2006 Blue Chip Economic Consensus Forecasts expect real Gross Domestic Product (GDP) growth in 2006 to be 3.5% for the U.S. and 2.9% for Japan. In 2007, GDP growth is expected to be somewhat lower at 2.7% for the U.S. and 2.3% for Japan.

DBEDT sees continued growth for Hawaii's tourism industry, with total visitor days, visitor arrivals, and total nominal (current dollar) visitor expenditures being projected to increase, respectively, 2.8%, 2.0%, and 7.1% in 2006, and 2.9%, 2.8%, and 6.3% in 2007.

DBEDT expects total wage and salary jobs to increase 2.5% in 2006 and 1.5% in 2007. Real Personal Income is expected to grow 2.1% in 2006 and 2007. Similarly, real GSP is projected to increase 2.7% in 2006 and 2.4% in 2007.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 4.8% in 2006 and 3.8% in 2007. The GSP deflator is expected to grow 4.0% in 2006 and 2.8% in 2007.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

1. Transactions are executed in accordance with management's general and specific authorization.
2. Transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles and to maintain accountability for assets.
3. Access to assets is permitted only in accordance with management's authorization.

I believe that the State's internal control is effective in accomplishing management's objectives.

By statutory provision, the State prepares a biennial budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2005, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

An allotment system and encumbrance accounting are utilized by the State for budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. Open encumbrances are reported as reservations of fund balances at June 30, 2006. To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

CASH MANAGEMENT

During fiscal 2006, the State Treasury earned \$41.9 million for the General Fund by investing its temporary cash surpluses, an increase of \$16.7 million from the amount earned in the previous fiscal year. The fiscal 2006 earnings represent an average investment yield of 3.7%, an increase of 1.2% in the average investment yield from the previous fiscal year.

RISK MANAGEMENT

The State obtains third-party coverage for property losses. The property loss limit is \$100 million per occurrence, except for flood and earthquake which individually is a \$50 million aggregate loss, and terrorism and boiler and machinery which is \$50 million per occurrence. The State also acquires general liability insurance, medical insurance, faithful performance of duty, and depositors' forgery insurance for state employees, but is self-insured for other perils, including workers' compensation and automobile losses. Expenditures for workers' compensation, automobile losses, and general liability (for amounts not covered by insurance) are appropriated annually.

EMPLOYEE UNION CONTRACTS

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. There are 13 bargaining units, of which 12 bargaining units have state employees as members. The 12 bargaining units have contractual agreements in force as of the date of this letter.

INDEPENDENT AUDIT

Although the state statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2006. The Independent Auditors' Report has been included in Part II of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This was the seventeenth consecutive year that the State has received this prestigious award.

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

I believe our current report continues to conform to the Certificate of Achievement Program's requirements and I am submitting it to the GFOA to determine its eligibility for the certificate.

ACKNOWLEDGEMENTS

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

Respectfully submitted,



RUSS K. SAITO
Comptroller, State of Hawaii

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Hawaii

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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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 billion. 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).

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

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

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)

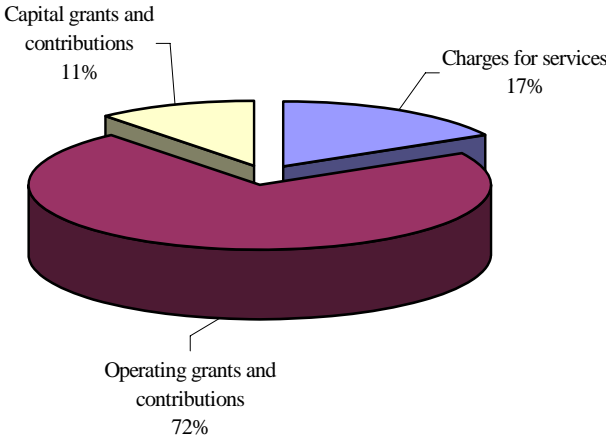
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 399,616	\$ 355,668	\$ 519,174	\$ 484,164	\$ 918,790	\$ 839,832
Operating grants and contributions	1,726,217	1,667,492	—	—	1,726,217	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>

Management's Discussion and Analysis

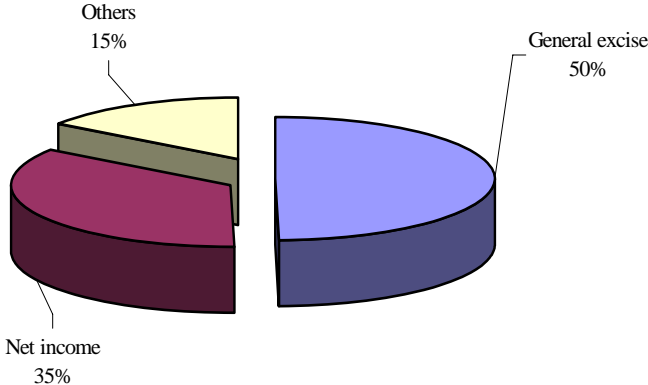
June 30, 2006

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

June 30, 2006

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)	
	<u>2006</u>	<u>2005</u>
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	172,673	169,738
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>

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.

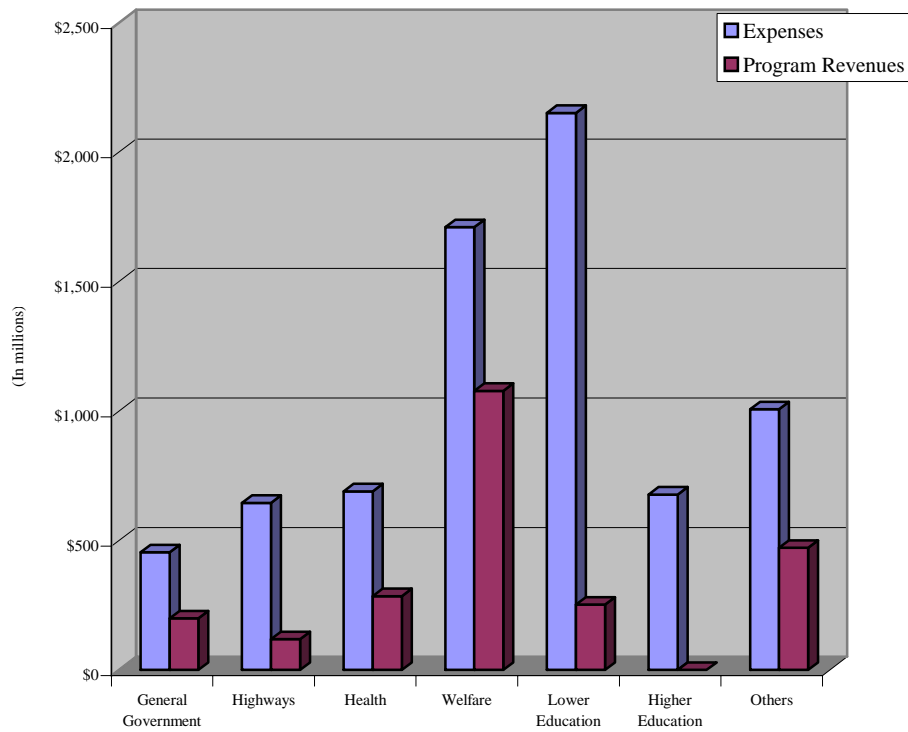
Urban redevelopment and housing net expenses decreased by \$131.2 million, or 2,447.4%, from the previous fiscal year due to an increase of \$158.7 million in capital contributions.

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**



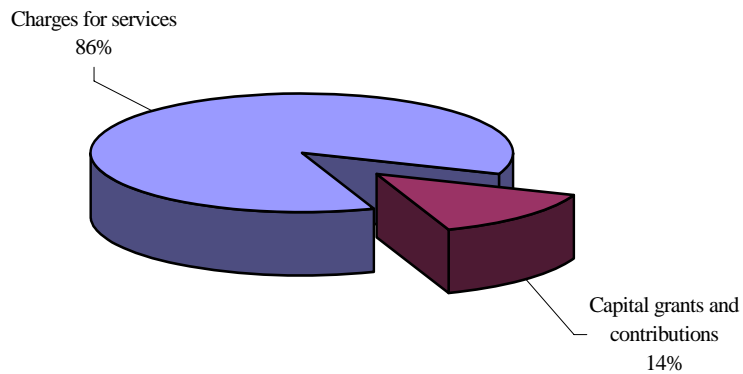
Management’s Discussion and Analysis

June 30, 2006

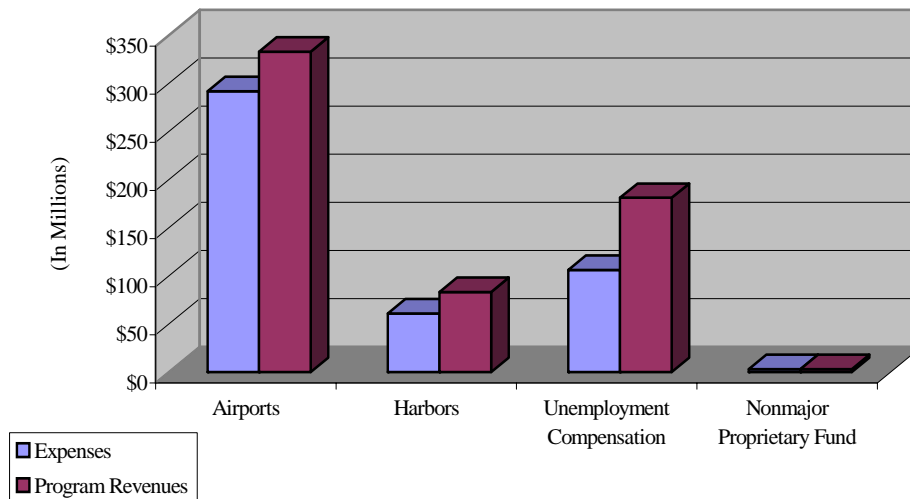
Business-Type Activities

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**



STATE OF HAWAII

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								Program Revenues	
	Charges for Services		Grants and Contributions		Total		Expenses		Net of Expenses	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
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

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.

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	<u>\$ 4,629,219</u>	<u>\$ 4,575,938</u>	<u>\$ 883,960</u>	<u>\$ 918,309</u>	<u>\$ 5,513,179</u>	<u>\$ 5,494,247</u>

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	<u>8,727,056</u>	<u>2,068,620</u>	<u>10,795,676</u>	<u>1,630,399</u>
Total Assets	<u>\$ 12,010,148</u>	<u>\$ 3,751,205</u>	<u>\$ 15,761,353</u>	<u>\$ 3,347,981</u>

See accompanying notes to basic financial statements.

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>LIABILITIES</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	5,747,173	1,111,115	6,858,288	1,042,429
<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	1,267,569	1,150,363	2,417,932	416,206
Total Net Assets	\$ 6,262,975	\$ 2,640,090	\$ 8,903,065	\$ 2,305,552

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			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
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	7,337,560	399,616	1,726,217	279,323	(4,932,404)	—	(4,932,404)	
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	461,867	519,174	—	81,145	—	138,452	138,452	
Total Primary Government	\$ 7,799,427	\$ 918,790	\$ 1,726,217	\$ 360,468	(4,932,404)	138,452	(4,793,952)	
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	\$ 1,645,316	\$ 656,720	\$ 420,834	\$ 77,213				(490,549)
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					4,854,677	40,122	4,894,799	653,114
Change in Net Assets					(77,727)	178,574	100,847	162,565
Net Assets – Beginning, as previously reported					6,340,702	2,465,411	8,806,113	2,142,987
Adjustments (note 1)					—	(3,895)	(3,895)	—
Net Assets – Beginning, as restated					6,340,702	2,461,516	8,802,218	2,142,987
Net Assets – Ending					\$ 6,262,975	\$ 2,640,090	\$ 8,903,065	\$ 2,305,552

See accompanying notes to basic financial statements.

STATE OF HAWAII
Governmental Funds
Balance Sheet

June 30, 2006

(Amounts in thousands)

<u>ASSETS</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
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	<u>\$ 1,518,298</u>	<u>\$ 294,797</u>	<u>\$ 1,511,747</u>	<u>\$ 3,324,842</u>
<u>LIABILITIES AND FUND BALANCES</u>				
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	<u>254,729</u>	<u>99,919</u>	<u>95,931</u>	<u>450,579</u>
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	<u>1,263,569</u>	<u>194,878</u>	<u>1,415,816</u>	<u>2,874,263</u>
Total Liabilities and Fund Balances	<u>\$ 1,518,298</u>	<u>\$ 294,797</u>	<u>\$ 1,511,747</u>	<u>\$ 3,324,842</u>

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>	
		<u>(5,153,777)</u>
Net Assets of Governmental Activities	\$	<u><u>6,262,975</u></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	7,952	—	1,593,053	1,601,005
Rentals	80	—	32,413	32,493
Fines, forfeitures, and penalties	19,677	—	7,150	26,827
Licenses and fees	1,284	—	28,080	29,364
Revenues from private sources	4,130	—	35,517	39,647
Other	48,761	—	79,522	128,283
Total Revenues	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>	
		<u>(12,495)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>(77,727)</u></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)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance – Over (Under)</u>
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	(203,103)	65,340	305,346	240,006
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)

<u>ASSETS</u>	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
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	<u>843,693</u>	<u>189,058</u>	<u>528,403</u>	<u>82,513</u>	<u>1,643,667</u>
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	<u>(1,270,649)</u>	<u>(164,643)</u>	<u>—</u>	<u>—</u>	<u>(1,435,292)</u>
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	<u>1,502,445</u>	<u>613,610</u>	<u>—</u>	<u>—</u>	<u>2,116,055</u>
Total Assets	<u>\$ 2,346,138</u>	<u>\$ 802,668</u>	<u>\$ 528,403</u>	<u>\$ 82,513</u>	<u>\$ 3,759,722</u>

See accompanying notes to basic financial statements.

<u>LIABILITIES</u>	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
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	<u>95,343</u>	<u>35,645</u>	<u>52,600</u>	<u>81,603</u>	<u>265,191</u>
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	<u>685,724</u>	<u>168,717</u>	<u>—</u>	<u>—</u>	<u>854,441</u>
Total Liabilities	<u>781,067</u>	<u>204,362</u>	<u>52,600</u>	<u>81,603</u>	<u>1,119,632</u>
<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	<u>\$ 1,565,070</u>	<u>\$ 598,307</u>	<u>\$ 475,803</u>	<u>\$ 910</u>	<u>\$ 2,640,090</u>

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	<u>228,998</u>	<u>83,217</u>	<u>181,146</u>	<u>3,133</u>	<u>496,494</u>
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	<u>251,481</u>	<u>52,023</u>	<u>105,786</u>	<u>2,587</u>	<u>411,877</u>
Operating Income (Loss)	<u>(22,483)</u>	<u>31,194</u>	<u>75,360</u>	<u>546</u>	<u>84,617</u>
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)	<u>23,762</u>	<u>(3,200)</u>	<u>—</u>	<u>—</u>	<u>20,562</u>
Income before Capital Contributions	1,279	27,994	75,360	546	105,179
Capital Contributions	73,273	122	—	—	73,395
Change in Net Assets	74,552	28,116	75,360	546	178,574
Net Assets – Beginning , as previously reported	1,490,518	574,086	400,443	364	2,465,411
Adjustments (note 1)	—	(3,895)	—	—	(3,895)
Net Assets – Beginning, as restated	1,490,518	570,191	400,443	364	2,461,516
Net Assets – Ending	<u>\$ 1,565,070</u>	<u>\$ 598,307</u>	<u>\$ 475,803</u>	<u>\$ 910</u>	<u>\$ 2,640,090</u>

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)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities:					
Cash received from customers	\$ 233,854	\$ 82,396	\$ —	\$ —	\$ 316,250
Cash received from taxes	—	—	178,446	—	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	7,249	—	—	—	7,249
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	29,904	541	—	—	30,445
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	75,252	—	—	—	75,252
Interest from investments	30,482	5,960	—	—	36,442
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	31,474	(2,284)	75,360	5,467	110,017
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><u>\$ 181,771</u></u>

See accompanying notes to basic financial statements.

STATE OF HAWAII

**Component Units
Statement of Net Assets**

June 30, 2006

(Amounts in thousands)

<u>ASSETS</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>
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
Total Restricted Assets	<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	<u>(704,243)</u>	<u>(344,917)</u>	<u>(189,768)</u>	<u>—</u>	<u>(1,238,928)</u>
Total Capital Assets, Net	<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
Total Assets	<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.

LIABILITIES	University of Hawaii	Housing and Community Development Corporation of Hawaii	Hawaii Health Systems Corporation	Hawaii Hurricane Relief Fund	Total Component Units
Current Liabilities:					
Vouchers and contracts payable	\$ 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	<u>178,699</u>	<u>76,598</u>	<u>108,938</u>	<u>3,427</u>	<u>367,662</u>
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	<u>217,060</u>	<u>387,362</u>	<u>70,345</u>	<u>—</u>	<u>674,767</u>
Total Liabilities	<u>395,759</u>	<u>463,960</u>	<u>179,283</u>	<u>3,427</u>	<u>1,042,429</u>
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	<u>\$ 1,365,375</u>	<u>\$ 617,234</u>	<u>\$ 142,760</u>	<u>\$ 180,183</u>	<u>\$ 2,305,552</u>

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)

	<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>
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	<u>615,320</u>	<u>160,298</u>	<u>379,149</u>	<u>—</u>	<u>1,154,767</u>
Net Program Revenues (Expenses)	<u>(487,482)</u>	<u>11,465</u>	<u>(14,355)</u>	<u>(177)</u>	<u>(490,549)</u>
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)	<u>623,804</u>	<u>(26)</u>	<u>39,876</u>	<u>(10,540)</u>	<u>653,114</u>
Change in Net Assets	136,322	11,439	25,521	(10,717)	162,565
Net Assets – Beginning	<u>1,229,053</u>	<u>605,795</u>	<u>117,239</u>	<u>190,900</u>	<u>2,142,987</u>
Net Assets – Ending	<u>\$ 1,365,375</u>	<u>\$ 617,234</u>	<u>\$ 142,760</u>	<u>\$ 180,183</u>	<u>\$ 2,305,552</u>

See accompanying notes to basic financial statements.

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

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	

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.

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

Notes to Basic Financial Statements

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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.

Notes to Basic Financial Statements

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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.

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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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Notes to Basic Financial Statements

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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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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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Notes to Basic Financial Statements

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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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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)
	<u> </u>
Net change in fund balance – GAAP basis	<u>\$ 297,999</u>

* 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)	—	—
	<u>\$ 1,844,747</u>	<u>\$ 275,000</u>	<u>\$ 1,569,747</u>	<u>\$ —</u>
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	—
	<u>\$ 204,659</u>	<u>\$ 182,135</u>	<u>\$ 22,513</u>	<u>\$ 11</u>

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, June 30, 2006
	Balance, July 1, 2005	Additions	Deletions	
Capital assets not being depreciated:				
Land and land improvements	\$ 2,379,192	\$ 51,727	\$ (122,376)	\$ 2,308,543
Construction in progress	793,421	343,942	(534,540)	602,823
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	244,729	23,283	(15,373)	252,639
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	(183,786)	(258,668)	633	(441,821)
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>

STATE OF HAWAII

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	681,370	(5,665)	675,705	119,615	(41,922)	753,398
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	2,700,016	(19,755)	2,680,261	74,209	(3,956)	2,750,514
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	(1,370,385)	21,525	(1,348,860)	(89,396)	2,964	(1,435,292)
Total capital assets	\$ 2,011,001	\$ (3,895)	\$ 2,007,106	\$ 104,428	\$ (42,914)	\$ 2,068,620

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	27,521
Total depreciation expense – governmental activities	\$ 368,357

Business-Type Activities:

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

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Notes to Basic Financial Statements

June 30, 2006

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>	
			<u>7,704</u>
Amount recorded in the governmental activities of the Primary Government		\$	<u><u>4,322,964</u></u>

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2006

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

<u>Series</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount Outstanding</u>
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):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
	<u>\$ 4,322,964</u>	<u>\$ 1,769,158</u>	<u>\$ 6,092,122</u>

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

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

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.

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.

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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):

<u>Series</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Amount</u>
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):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
	<u>\$ 306,255</u>	<u>\$ 128,295</u>	<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):

<u>Series</u>	<u>Interest Rates</u>	<u>Final Maturity Date (July 1)</u>	<u>Original Amount of Issue</u>	<u>Outstanding Amount</u>
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	423,255	407,460
			<u>\$ 711,135</u>	673,695
Add unamortized premium				11,671
Less:				
Unamortized discount				(800)
Deferred loss on refunding				(14,485)
Current portion				<u>(30,565)</u>
Noncurrent portion				<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.

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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 Due		Total	Noncurrent
				July 1, 2006	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>\$ 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):

Fiscal year:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
	<u>\$ 854,742</u>	<u>\$ 484,247</u>	<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				
	Balance, July 1, 2005	Additions	Deductions	Balance, June 30, 2006	Due within one year
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	<u>\$ 5,121,306</u>	<u>\$ 463,219</u>	<u>\$ (430,748)</u>	<u>\$ 5,153,777</u>	<u>\$ 471,969</u>
	Business-Type Activities				
	Balance, July 1, 2005	Additions	Deductions	Balance, June 30, 2006	Due within one year
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)
	<u>\$ 933,797</u>	<u>\$ 5,191</u>	<u>\$ (39,998)</u>	<u>\$ 898,990</u>	<u>\$ 44,549</u>

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	8,517	—
	<u>8,517</u>	<u>89,900</u>
Nonmajor Governmental Funds:		
General Fund	83	72,100
	<u>83</u>	<u>72,100</u>
Proprietary Funds:		
Harbors:		
Capital Projects Fund	—	8,517
	<u>—</u>	<u>8,517</u>
Component Units:		
UH:		
General Fund	7,965	6,000
	<u>7,965</u>	<u>6,000</u>
HHSC:		
General Fund	—	13,300
	<u>—</u>	<u>13,300</u>
	<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
		<u>75</u>
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		16,601
		<hr/>
Total future minimum lease payments		80,110
Less amount representing interest		(22,075)
		<hr/>
Present value of net minimum lease payments	\$	58,035
		<hr/> <hr/>

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

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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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- 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
	<u>\$ 195,814</u>	<u>\$ 128,469</u>	<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	<u>(35,504)</u>
	34,150
Cash with trustee and other	<u>3,999</u>
	<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		55,867
	\$	<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
	\$	<u>336,367</u>

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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June 30, 2006

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.

Notes to Basic Financial Statements

June 30, 2006

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.

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.

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):

	<u>2006</u>	<u>2005</u>
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	—	—	—	—	—	—	—
Accrued interest	1,826	255	—	977	—	—	85
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	<u>\$ 273,092</u>	<u>\$ 122,402</u>	<u>\$ 319,563</u>	<u>\$ 132,922</u>	<u>\$ 4,801</u>	<u>\$ 106,708</u>	<u>\$ 71,533</u>
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	<u>952</u>	<u>2,196</u>	<u>2,537</u>	<u>4,881</u>	<u>46</u>	<u>73,802</u>	<u>4,175</u>
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	<u>272,140</u>	<u>120,206</u>	<u>317,026</u>	<u>128,041</u>	<u>4,755</u>	<u>32,906</u>	<u>67,358</u>
Total Liabilities and Fund Balances	<u>\$ 273,092</u>	<u>\$ 122,402</u>	<u>\$ 319,563</u>	<u>\$ 132,922</u>	<u>\$ 4,801</u>	<u>\$ 106,708</u>	<u>\$ 71,533</u>

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
<u>\$ 105,740</u>	<u>\$ 38,429</u>	<u>\$ 46,187</u>	<u>\$ 105,271</u>	<u>\$ 152,271</u>	<u>\$ 25,169</u>	<u>\$ 1,504,088</u>	<u>\$ 8,024</u>	<u>\$ (365)</u>	<u>\$ 1,511,747</u>
\$ 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	—	798
<u>596</u>	<u>1,041</u>	<u>1,029</u>	<u>480</u>	<u>1,808</u>	<u>1,955</u>	<u>95,498</u>	<u>798</u>	<u>(365)</u>	<u>95,931</u>
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
<u>57,493</u>	<u>36,281</u>	<u>40,114</u>	<u>53,670</u>	<u>106,849</u>	<u>43</u>	<u>360,402</u>	<u>—</u>	<u>—</u>	<u>360,402</u>
<u>105,144</u>	<u>37,388</u>	<u>45,158</u>	<u>104,791</u>	<u>150,463</u>	<u>23,214</u>	<u>1,408,590</u>	<u>7,226</u>	<u>—</u>	<u>1,415,816</u>
<u>\$ 105,740</u>	<u>\$ 38,429</u>	<u>\$ 46,187</u>	<u>\$ 105,271</u>	<u>\$ 152,271</u>	<u>\$ 25,169</u>	<u>\$ 1,504,088</u>	<u>\$ 8,024</u>	<u>\$ (365)</u>	<u>\$ 1,511,747</u>

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	Eliminations	Total Nonmajor Governmental Funds
Economic Development	Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total			
\$ 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	—	79,522
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		
	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
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	<u>174,803</u>	<u>184,942</u>	<u>10,139</u>
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	<u>140,834</u>	<u>161,985</u>	<u>21,151</u>
Total Revenues	<u>315,637</u>	<u>346,927</u>	<u>31,290</u>
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	<u>310,187</u>	<u>234,373</u>	<u>(75,814)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 5,450</u>	<u>\$ 112,554</u>	<u>\$ 107,104</u>

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)	—	—	—
—	—	—	—	—	—
<u>5,270</u>	<u>20,075</u>	<u>14,805</u>	<u>—</u>	<u>—</u>	<u>—</u>
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)	—	—	—
<u>2,497</u>	<u>5,118</u>	<u>2,621</u>	<u>10,162</u>	<u>15,318</u>	<u>5,156</u>
<u>33,818</u>	<u>53,058</u>	<u>19,240</u>	<u>37,898</u>	<u>30,166</u>	<u>(7,732)</u>
<u>39,088</u>	<u>73,133</u>	<u>34,045</u>	<u>37,898</u>	<u>30,166</u>	<u>(7,732)</u>
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)	—	—	—
—	—	—	—	—	—
<u>70,904</u>	<u>53,281</u>	<u>(17,623)</u>	<u>95,809</u>	<u>89,420</u>	<u>(6,389)</u>
<u>\$ (31,816)</u>	<u>\$ 19,852</u>	<u>\$ 51,668</u>	<u>\$ (57,911)</u>	<u>\$ (59,254)</u>	<u>\$ (1,343)</u>

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)

	<u>Budget</u>	<u>Health Actual (Budgetary Basis)</u>	<u>Variance – Over (Under)</u>
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		
	Budget	Actual (Budgetary Basis)	Variance – Over (Under)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	<u>—</u>	<u>—</u>	<u>—</u>
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	<u>220,575</u>	<u>251,363</u>	<u>30,788</u>
Total Revenues	<u>220,575</u>	<u>251,363</u>	<u>30,788</u>
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	<u>432,016</u>	<u>259,542</u>	<u>(172,474)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (211,441)</u>	<u>\$ (8,179)</u>	<u>\$ 203,262</u>

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	—	—	—
—	—	—	—	—	—
<u>98,867</u>	<u>103,404</u>	<u>4,537</u>	<u>900</u>	<u>1,039</u>	<u>139</u>
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
—	—	—	—	—	—
<u>43,632</u>	<u>75,668</u>	<u>32,036</u>	<u>67,313</u>	<u>62,073</u>	<u>(5,240)</u>
<u>142,499</u>	<u>179,072</u>	<u>36,573</u>	<u>68,213</u>	<u>63,112</u>	<u>(5,101)</u>
—	—	—	—	—	—
1,350	250	(1,100)	2,180	1,832	(348)
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
163,500	132,636	(30,864)	112,124	62,401	(49,723)
—	—	—	—	—	—
<u>164,850</u>	<u>132,886</u>	<u>(31,964)</u>	<u>114,304</u>	<u>64,233</u>	<u>(50,071)</u>
<u>\$ (22,351)</u>	<u>\$ 46,186</u>	<u>\$ 68,537</u>	<u>\$ (46,091)</u>	<u>\$ (1,121)</u>	<u>\$ 44,970</u>

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)

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

	<u>Budget</u>	<u>All Other Actual (Budgetary Basis)</u>	<u>Variance – Over (Under)</u>
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	1,300	1,617	317
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	<u>1,300</u>	<u>1,617</u>	<u>317</u>
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	<u>64,562</u>	<u>66,587</u>	<u>2,025</u>
Total Revenues	<u>65,862</u>	<u>68,204</u>	<u>2,342</u>
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	<u>144,800</u>	<u>87,112</u>	<u>(57,688)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (78,938)</u>	<u>\$ (18,908)</u>	<u>\$ 60,030</u>

See accompanying independent auditors' report.

<u>Budget</u>	<u>Total Actual (Budgetary Basis)</u>	<u>Variance – Over (Under)</u>
\$ 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		219,987
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)

<u>ASSETS</u>	<u>Agency Funds</u>			<u>Total Agency Funds</u>
	<u>Tax Collections</u>	<u>Custodial</u>	<u>Other</u>	
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
<u>LIABILITIES</u>				
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	<u>\$ 2,461</u>	<u>\$ 11,659,551</u>	<u>\$ (11,645,528)</u>	<u>\$ 16,484</u>
Liabilities:				
Vouchers payable	\$ 48	\$ 16,484	\$ (48)	\$ 16,484
Due to individuals, businesses, and counties	2,413	—	(2,413)	—
Total Liabilities	<u>\$ 2,461</u>	<u>\$ 16,484</u>	<u>\$ (2,461)</u>	<u>\$ 16,484</u>
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	<u>\$ 110,076</u>	<u>\$ 3,132,477</u>	<u>\$ (3,138,009)</u>	<u>\$ 104,544</u>
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	<u>\$ 110,076</u>	<u>\$ 3,096,232</u>	<u>\$ (3,101,764)</u>	<u>\$ 104,544</u>
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	<u>\$ 48,101</u>	<u>\$ 72,789</u>	<u>\$ (62,558)</u>	<u>\$ 58,332</u>
Liabilities:				
Vouchers payable	\$ 394	\$ 145	\$ (394)	\$ 145
Due to individuals, businesses, and counties	47,707	31,248	(20,768)	58,187
Total Liabilities	<u>\$ 48,101</u>	<u>\$ 31,393</u>	<u>\$ (21,162)</u>	<u>\$ 58,332</u>
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	<u>\$ 160,638</u>	<u>\$ 14,864,817</u>	<u>\$ (14,846,095)</u>	<u>\$ 179,360</u>
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	<u>\$ 160,638</u>	<u>\$ 3,144,109</u>	<u>\$ (3,125,387)</u>	<u>\$ 179,360</u>

See accompanying independent auditors' report.

PART III: STATISTICAL SECTION

STATISTICAL SECTION

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

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Financial Trends: These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	121
Revenue Capacity: These schedules contain information to help the reader assess the State's most significant local revenue sources, the general excise tax, and net income tax.	125
Debt Capacity: These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	130
Demographic and Economic Information: These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	134
Operating Information: These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services provided and the activities performed by the State.	136

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

STATE OF HAWAII

Net Assets by Component

(Accrual Basis of Accounting)

Last Five Fiscal Years

(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
Governmental Activities:					
Invested in capital assets, net of related debt	\$ 3,709,504	\$ 4,318,111	\$ 4,654,693	\$ 5,140,822	\$ 5,675,825
Restricted	1,285,902	1,163,684	1,062,585	1,115,472	1,128,075
Unrestricted (deficit)	1,267,569	858,907	204,363	(92,938)	(85,382)
Total Governmental Activities Net Assets	<u>\$ 6,262,975</u>	<u>\$ 6,340,702</u>	<u>\$ 5,921,641</u>	<u>\$ 6,163,356</u>	<u>\$ 6,718,518</u>
Business-Type Activities:					
Invested in capital assets, net of related debt	\$ 1,272,249	\$ 1,186,703	\$ 1,129,619	\$ 1,104,914	\$ 1,095,297
Restricted	217,478	189,093	169,816	167,155	175,159
Unrestricted	1,150,363	1,089,615	1,073,006	1,064,981	1,044,559
Total Business-Type Activities Net Assets	<u>\$ 2,640,090</u>	<u>\$ 2,465,411</u>	<u>\$ 2,372,441</u>	<u>\$ 2,337,050</u>	<u>\$ 2,315,015</u>
Primary Government:					
Invested in capital assets, net of related debt	\$ 4,981,753	\$ 5,504,814	\$ 5,784,312	\$ 6,245,736	\$ 6,771,122
Restricted	1,503,380	1,352,777	1,232,401	1,282,627	1,303,234
Unrestricted	2,417,932	1,948,522	1,277,369	972,043	959,177
Total Primary Government Net Assets	<u>\$ 8,903,065</u>	<u>\$ 8,806,113</u>	<u>\$ 8,294,082</u>	<u>\$ 8,500,406</u>	<u>\$ 9,033,533</u>

See accompanying independent auditors' report.

STATE OF HAWAII
Changes in Net Assets
(Accrual Basis of Accounting)

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
Expenses:					
Governmental activities:					
General government	\$ 455,008	\$ 494,174	\$ 427,820	\$ 475,517	\$ 469,438
Public safety	336,362	248,685	239,932	252,741	247,205
Highways	646,336	282,339	413,215	439,923	346,241
Conservation of natural resources	76,490	79,545	69,693	48,918	30,220
Health	690,265	561,155	520,433	515,492	498,068
Welfare	1,709,526	1,615,721	1,547,732	1,418,224	1,335,207
Lower education	2,151,891	1,758,596	1,795,482	1,660,595	1,488,825
Higher education	678,338	559,379	480,296	537,709	455,037
Other education	19,183	19,667	23,092	38,161	88,605
Culture and recreation	98,121	72,920	64,052	71,738	69,354
Urban redevelopment and housing	87,789	53,077	59,394	42,713	1,236
Economic development and assistance	215,578	214,842	214,206	231,605	267,451
Interest expense	172,673	169,738	179,357	200,864	142,118
Total Governmental Activities Expenses	<u>7,337,560</u>	<u>6,129,838</u>	<u>6,034,704</u>	<u>5,934,200</u>	<u>5,439,005</u>
Business-type activities:					
Airports	292,086	273,949	273,546	291,871	279,654
Harbors	61,408	64,568	54,432	61,448	46,315
Unemployment compensation	105,786	112,329	176,135	204,344	214,470
Nonmajor proprietary fund	2,587	2,883	2,496	789	—
Total Business-Type Activities Expenses	<u>461,867</u>	<u>453,729</u>	<u>506,609</u>	<u>558,452</u>	<u>540,439</u>
Total Primary Government Expenses	<u>\$ 7,799,427</u>	<u>\$ 6,583,567</u>	<u>\$ 6,541,313</u>	<u>\$ 6,492,652</u>	<u>\$ 5,979,444</u>
Program Revenues:					
Governmental activities:					
Charges for services	\$ 399,616	\$ 355,668	\$ 283,459	\$ 212,993	\$ 196,412
Operating grants and contributions	1,726,217	1,667,492	1,687,923	1,586,719	1,480,902
Capital grants and contributions	279,323	143,183	40,001	69,377	75,716
Total Governmental Activities Program Revenues	<u>2,405,156</u>	<u>2,166,343</u>	<u>2,011,383</u>	<u>1,869,089</u>	<u>1,753,030</u>
Business-type activities:					
Charges for services	519,174	484,164	482,994	516,523	416,227
Operating grants and contributions	—	—	—	—	181
Capital grants and contributions	81,145	35,048	24,253	28,166	23,918
Total Business-Type Activities Program Revenues	<u>600,319</u>	<u>519,212</u>	<u>507,247</u>	<u>544,689</u>	<u>440,326</u>
Total Primary Government Program Revenues	<u>\$ 3,005,475</u>	<u>\$ 2,685,555</u>	<u>\$ 2,518,630</u>	<u>\$ 2,413,778</u>	<u>\$ 2,193,356</u>
Net (Expense) Revenue:					
Governmental activities	\$ (4,932,404)	\$ (3,963,495)	\$ (4,023,321)	\$ (4,065,111)	\$ (3,685,975)
Business-type activities	138,452	65,483	638	(13,763)	(100,113)
Total Primary Government Net Expenses	<u>\$ (4,793,952)</u>	<u>\$ (3,898,012)</u>	<u>\$ (4,022,683)</u>	<u>\$ (4,078,874)</u>	<u>\$ (3,786,088)</u>
General Revenues and Other Changes in Net Assets:					
Governmental activities:					
Taxes:					
General excise tax	\$ 2,359,316	\$ 2,145,603	\$ 1,899,777	\$ 1,777,299	\$ 1,653,960
Net income tax – corporations and individuals	1,675,131	1,490,964	1,247,141	1,057,088	1,090,023
Public service companies tax	120,678	108,686	99,505	114,115	93,406
Transient accommodations tax	124,133	110,723	101,580	92,018	87,214
Tobacco and liquor taxes	134,216	128,982	120,637	113,483	104,638
Liquid fuel tax	84,719	82,733	81,401	77,174	74,661
Tax on premiums of insurance companies	89,778	84,822	79,477	74,335	68,579
Vehicle weight and registration tax	56,101	54,057	46,567	46,259	41,969
Rental motor/tour vehicle surcharge tax	45,885	41,886	41,414	39,472	36,054
Franchise tax	18,324	38,520	28,384	50,155	35,229
Others	46,850	34,191	41,903	60,724	70,911
Interest and investment income	99,546	64,236	—	—	93,718
Payment from the State	—	—	—	8,344	—
Other	—	(2,847)	(6,180)	(517)	(46,810)
Total Governmental Activities	<u>4,854,677</u>	<u>4,382,556</u>	<u>3,781,606</u>	<u>3,509,949</u>	<u>3,403,552</u>
Business-type activities:					
Interest and investment income	40,122	27,784	24,759	33,695	60,002
Other	—	(297)	(2,478)	2,103	17,103
Total Business-Type Activities	<u>40,122</u>	<u>27,487</u>	<u>22,281</u>	<u>35,798</u>	<u>77,105</u>
Total Primary Government	<u>\$ 4,894,799</u>	<u>\$ 4,410,043</u>	<u>\$ 3,803,887</u>	<u>\$ 3,545,747</u>	<u>\$ 3,480,657</u>
Changes in Net Assets:					
Governmental activities	\$ (77,727)	\$ 419,061	\$ (241,715)	\$ (555,162)	\$ (282,423)
Business-type activities	178,574	92,970	21,919	22,035	(23,008)
Total Primary Government	<u>\$ 100,847</u>	<u>\$ 512,031</u>	<u>\$ (219,796)</u>	<u>\$ (533,127)</u>	<u>\$ (305,431)</u>

See accompanying independent auditors' report.

STATE OF HAWAII

Fund Balances, Governmental Funds

(Modified Accrual Basis of Accounting)

Last Five Fiscal Years

(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
General Fund:					
Reserved	\$ 249,581	\$ 219,800	\$ 217,757	\$ 212,362	\$ 229,952
Unreserved	1,013,988	745,770	401,340	290,466	348,777
Total General Fund	<u>\$ 1,263,569</u>	<u>\$ 965,570</u>	<u>\$ 619,097</u>	<u>\$ 502,828</u>	<u>\$ 578,729</u>
All Other Governmental Funds:					
Reserved	\$ 1,851,194	\$ 1,552,524	\$ 1,512,966	\$ 1,401,217	\$ 1,341,541
Unreserved, reported in:					
Capital Projects Fund	(878,164)	(615,763)	(797,930)	(828,872)	(621,050)
Special Revenue Funds	637,664	637,585	589,280	571,423	651,646
Total All Other Governmental Funds	<u>\$ 1,610,694</u>	<u>\$ 1,574,346</u>	<u>\$ 1,304,316</u>	<u>\$ 1,143,768</u>	<u>\$ 1,372,137</u>

See accompanying independent auditors' report.

STATE OF HAWAII

Changes in Fund Balances, Governmental Funds

(Modified Accrual Basis of Accounting)

Last Five Fiscal Years

(Amounts in thousands)

	Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
Revenues:					
Taxes:					
General excise tax	\$ 2,359,316	\$ 2,145,603	\$ 1,900,077	\$ 1,780,199	\$ 1,650,760
Net income tax – corporations and individuals	1,664,331	1,484,664	1,254,341	1,050,688	1,081,723
Public service companies tax	120,678	108,686	99,505	114,115	93,406
Transient accommodations tax	124,133	110,723	101,580	92,018	87,214
Tobacco and liquor taxes	134,216	128,982	120,637	113,483	104,638
Liquid fuel tax	84,719	82,733	81,401	77,174	74,661
Tax on premiums of insurance companies	89,778	84,822	79,477	74,335	68,579
Vehicle weight and registration tax	56,101	54,057	46,567	46,259	41,969
Rental motor/tour vehicle surcharge tax	48,092	43,950	41,414	39,472	36,054
Franchise tax	18,324	38,520	—	—	—
Other	46,850	34,191	28,384	50,165	35,229
Total Taxes	4,746,538	4,316,931	3,753,383	3,437,908	3,274,233
Interest and investment income	82,013	58,236	41,903	60,724	70,911
Charges for current services	343,424	298,670	229,142	214,980	164,832
Intergovernmental	1,601,005	1,574,899	1,528,280	1,362,489	1,258,015
Rentals	32,493	28,732	30,893	27,854	30,583
Fines, forfeitures, and penalties	26,827	27,482	30,453	24,434	23,781
Licenses and fees	29,364	27,297	25,643	27,055	24,479
Revenues from private sources	39,647	41,836	42,264	48,539	69,591
Other	128,283	101,387	108,287	165,725	183,669
Total Revenues	7,029,594	6,475,470	5,790,248	5,369,708	5,100,094
Expenditures:					
Current:					
General government	493,301	508,154	450,975	429,448	474,268
Public safety	322,578	291,369	265,432	256,740	240,165
Highways	267,213	301,784	222,672	254,648	235,936
Conservation of natural resources	86,628	74,188	64,774	65,787	56,679
Health	685,679	564,807	518,667	512,864	500,221
Welfare	1,709,810	1,614,559	1,545,322	1,418,056	1,334,078
Lower education	1,984,129	1,798,208	1,758,424	1,744,625	1,520,011
Higher education	678,338	559,379	480,296	537,709	521,935
Other education	19,183	19,667	22,807	38,160	91,901
Culture and recreation	87,478	73,774	66,884	70,549	68,479
Urban redevelopment and housing	60,725	52,698	55,077	17,265	11,583
Economic development and assistance	215,559	214,377	215,133	231,402	267,019
Other	4,634	4,784	4,195	—	—
Debt service	447,577	321,948	301,515	394,323	362,600
Total Expenditures	7,062,832	6,399,696	5,972,173	5,971,576	5,684,875
Excess (Deficiency) of Revenues Over Expenditures	(33,238)	75,774	(181,925)	(601,868)	(584,781)
Other Financing Sources (Uses):					
Proceeds from borrowing and refunding	367,585	1,491,445	690,009	319,771	622,070
Payments to escrow agent	—	(947,869)	(215,510)	—	—
Transfers in	499,655	495,098	351,822	572,882	435,611
Transfers out	(499,655)	(495,098)	(351,822)	(603,399)	(482,421)
Other	—	(2,847)	(15,757)	8,344	93,718
Total Other Financing Sources	367,585	540,729	458,742	297,598	668,978
Net Change in Fund Balances	\$ 334,347	\$ 616,503	\$ 276,817	\$ (304,270)	\$ 84,197
Debt service as a percentage of noncapital expenditures	7.3%	5.7%	5.7%	7.8%	7.5%

See accompanying independent auditors' report.

STATE OF HAWAII

Personal Income by Industry

Last Ten Fiscal Years

(Amounts in millions)

	For the Fiscal Year Ended June 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Farm Earnings	\$ N/A	\$ N/A	\$ 217	\$ 222	\$ 220	\$ 215	\$ 212	\$ 252	\$ 221	\$ 164
Nonfarm Wage and Salary Workers:										
Goods-producing industries:										
Forestry, fishing related activities, and other	N/A	N/A	58	65	68	68	162	152	146	135
Mining	N/A	N/A	36	29	31	36	34	31	28	20
Construction	N/A	N/A	2,236	2,041	1,869	1,690	1,568	1,402	1,391	1,309
Manufacturing – durable and nondurable goods	N/A	N/A	801	753	745	786	902	872	847	705
Subtotal Goods-Producing Industries	N/A	N/A	3,131	2,888	2,713	2,580	2,666	2,457	2,412	2,169
Service-producing industries										
Transportation, communication, and utilities	N/A	N/A	1,588	1,486	1,416	1,463	2,109	1,977	1,920	1,771
Trade	N/A	N/A	3,199	3,001	2,809	2,726	3,807	3,732	3,552	3,370
Information	N/A	N/A	692	628	669	709	—	—	—	—
Finance, insurance, and real estate	N/A	N/A	2,331	2,097	1,884	1,704	2,320	2,092	2,011	1,847
Service	N/A	N/A	11,559	10,617	9,945	9,477	7,694	7,127	6,940	6,386
State and local government	N/A	N/A	4,051	3,851	3,664	3,267	3,078	3,157	3,066	2,979
Federal government	N/A	N/A	6,243	5,718	5,282	4,819	4,592	4,340	4,291	4,013
Subtotal Service-Producing Industries	N/A	N/A	29,663	27,398	25,669	24,165	23,600	22,425	21,780	20,366
Total Nonfarm Wage and Salary Workers	N/A	N/A	32,794	30,286	28,382	26,745	26,266	24,882	24,192	22,535
Other(1)	N/A	N/A	8,164	7,617	7,769	8,167	7,973	7,513	7,344	8,520
Total Personal Income	\$ —	\$ —	\$ 41,175	\$ 38,125	\$ 36,371	\$ 35,127	\$ 34,451	\$ 32,647	\$ 31,757	\$ 31,219
Total direct income tax rate(2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.

(2) The total direct rate for personal income is not available.

Source: State of Hawaii, Data Book 2005.

N/A Not available.

See accompanying independent auditors' report.

STATE OF HAWAII

Personal Income Tax Rates

Last Four Calendar Years

Top Income Tax Rate is Applied to Taxable Income in Excess of

Year	Top Rate	Single	Top Rate	Married Filing Jointly	Top Rate	Head of Household
2005	8.25% + \$2,678	\$ 40,000	8.25% + \$5,356	\$ 80,000	8.25% + \$4,017	\$ 60,000
2004	8.25% + \$2,678	40,000	8.25% + \$5,356	80,000	8.25% + \$4,017	60,000
2003	8.25% + \$2,678	40,000	8.25% + \$5,356	80,000	8.25% + \$4,017	60,000
2002	8.25% + \$2,678	40,000	8.25% + \$5,356	80,000	8.25% + \$4,017	60,000

Source: State of Hawaii, Department of Taxation.

See accompanying independent auditors' report.

STATE OF HAWAII

Personal Income Tax Filers and Liability by Income Level

Calendar Years 2004 and 1997

2004				
Income Level(1)	Number of Filers(2)	Percentage of Total	Personal Income Tax Liability	Percentage of Total
Under \$5,000	111,130	18.8%	\$ 946,805	0.1%
\$5,000 – \$10,000	59,764	10.1	6,567,476	0.5
\$10,000 – \$20,000	94,202	16.0	39,998,661	3.2
\$20,000 – \$30,000	78,753	13.4	74,807,195	6.0
\$30,000 – \$40,000	58,670	9.9	87,470,721	7.1
\$40,000 – \$50,000	40,137	6.8	80,504,407	6.5
\$50,000 – \$75,000	65,152	11.1	186,017,438	15.0
\$75,000 – \$100,000	36,322	6.2	155,355,256	12.5
\$100,000 and over	45,475	7.7	609,937,855	49.1
	<u>589,605</u>	<u>100.0%</u>	<u>1,241,605,814</u>	<u>100.0%</u>

1997				
Income Level(1)	Number of Filers(2)	Percentage of Total	Personal Income Tax Liability	Percentage of Total
Under \$5,000	120,410	21.9%	\$ 2,638,482	0.3%
\$5,000 – \$10,000	62,542	11.4	11,655,521	1.1
\$10,000 – \$20,000	93,305	17.0	58,512,980	5.7
\$20,000 – \$30,000	79,644	14.5	105,102,820	10.2
\$30,000 – \$40,000	50,211	9.1	98,885,467	9.6
\$40,000 – \$50,000	37,406	6.8	95,962,813	9.3
\$50,000 – \$75,000	57,255	10.4	204,194,819	19.8
\$75,000 – \$100,000	25,738	4.7	137,055,563	13.2
\$100,000 and over	23,228	4.2	318,835,007	30.8
	<u>549,739</u>	<u>100.0%</u>	<u>1,032,843,472</u>	<u>100.0%</u>

(1) Income Level = Hawaii Adjusted Gross Income.

(2) Number of Filers = All resident returns and taxable nonresident returns filed.

Source: State of Hawaii, Department of Taxation.

Note: Calendar year 2004 is the most recent year available.

See accompanying independent auditors' report.

STATE OF HAWAII

Taxable Sales by Industry

Last Five Fiscal Years

(Amounts in millions)

	For the Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
Taxable Sales by Activities:					
Retailing	\$ 22,893	\$ 21,748	\$ 20,007	\$ 18,807	\$ 17,250
Services	9,457	8,409	7,729	7,113	6,554
Contracting	6,166	5,385	4,544	4,598	3,866
Hotel rentals	2,861	2,593	2,444	2,352	2,185
All other rentals	4,882	4,459	4,284	4,062	3,886
All other (4%)	4,694	4,176	3,764	3,452	3,207
Subtotal	50,953	46,770	42,772	40,384	36,948
Sugar processing	2	1	2	3	1
Pineapple canning	5	3	5	3	3
Producing	528	565	533	529	511
Manufacturing	656	660	651	627	594
Wholesaling	11,978	11,205	10,426	9,617	8,960
Use (1/2%)	6,571	5,869	6,020	5,648	4,812
Services (Intermediary)	521	317	327	338	345
Insurance solicitors	455	488	901	797	1,157
Subtotal	20,716	19,108	18,865	17,562	16,383
Total All Activities	\$ 71,669	\$ 65,878	\$ 61,637	\$ 57,946	\$ 53,331

Source: State of Hawaii, Department of Taxation.

See accompanying independent auditors' report.

STATE OF HAWAII

Sales Tax Revenue Payers by Industry

Last Five Fiscal Years
(Amounts in thousands)

	2006		2005		2004		2003		2002	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
Retailing	\$ 915,718	38.9%	\$ 890,566	41.7%	\$ 800,287	42.1%	\$ 752,268	42.0%	690,005	42.8%
Services	378,266	16.1	339,775	15.9	309,166	16.3	284,526	15.8	262,160	16.3
Contracting	246,635	10.5	216,541	10.1	181,763	9.6	183,913	10.2	154,651	9.6
Theater, amusement, etc.	11,476	0.5	11,569	0.5	10,993	0.6	10,394	0.6	10,336	0.6
Interest	7,835	0.3	5,716	0.3	5,849	0.3	6,502	0.4	8,695	0.5
Commissions	47,454	2.0	43,743	2.0	39,420	2.1	33,948	1.9	29,442	1.8
Hotel rentals	114,452	4.9	105,749	4.9	97,764	5.1	94,085	5.2	87,414	5.4
All other rentals	195,291	8.3	179,788	8.4	171,375	9.0	162,492	9.1	155,419	9.6
Use (4%)	35,319	1.5	33,564	1.6	25,615	1.3	24,202	1.4	21,860	1.4
All other (4%)	85,664	3.6	75,918	3.6	68,682	3.6	63,022	3.5	57,934	3.6
Sugar processing	10	—	5	—	9	—	14	—	7	—
Pineapple canning	24	—	15	—	25	—	18	—	17	—
Producing	2,642	0.1	2,839	0.1	2,664	0.1	2,646	0.1	2,553	0.2
Manufacturing	3,281	0.1	3,323	0.2	3,257	0.2	3,133	0.2	2,970	0.2
Wholesaling	59,892	2.5	57,122	2.7	52,130	2.7	48,083	2.7	44,801	2.8
Use (1/2%)	32,856	1.4	29,702	1.4	30,102	1.6	28,242	1.6	24,062	1.5
Services (Intermediary)	2,604	0.1	1,746	0.1	1,633	0.1	1,689	0.1	1,724	0.1
Insurance solicitors	682	—	739	—	1,351	0.1	1,196	0.1	1,736	0.1
Unallocated collections	215,215	9.2	138,183	6.5	98,292	5.2	92,326	5.1	56,547	3.5
Total	\$ 2,355,316	100.0%	\$ 2,136,603	100.0%	\$ 1,900,377	100.0%	\$ 1,792,699	100.0%	\$ 1,612,333	100.0%

Source: State of Hawaii, Department of Taxation.

Note: Information for number of filers is not available.

See accompanying independent auditors' report.

STATE OF HAWAII

Ratios of Outstanding Debt by Type

Last Five Fiscal Years

(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
Governmental Activities:					
General obligation bonds	\$ 4,322,964	\$ 4,256,633	\$ 3,954,192	\$ 3,634,738	\$ 3,568,001
Revenue bonds	306,255	319,305	276,680	288,470	297,995
Capital leases	58,035	61,340	64,485	67,505	70,400
Total Governmental Activities	<u>4,687,254</u>	<u>4,637,278</u>	<u>4,295,357</u>	<u>3,990,713</u>	<u>3,936,396</u>
Business-Type Activities:					
General obligation bonds	137	167	196	225	955
Revenue bonds	883,823	927,695	1,017,445	1,076,100	1,106,048
Total Business-Type Activities	<u>883,960</u>	<u>927,862</u>	<u>1,017,641</u>	<u>1,076,325</u>	<u>1,107,003</u>
Total Primary Government	<u>\$ 5,571,214</u>	<u>\$ 5,565,140</u>	<u>\$ 5,312,998</u>	<u>\$ 5,067,038</u>	<u>\$ 5,043,399</u>
Hawaii Total Personal Income	\$ 47,030,000	\$ 43,953,000	\$ 41,175,000	\$ 38,125,000	\$ 36,371,000
Debt as a Percentage of Personal Income	11.8%	12.7%	12.9%	13.3%	13.9%
Hawaii Population	1,289	1,275	1,262	1,249	1,241
Amount of Debt Per Capita	\$ 4,322	\$ 4,365	\$ 4,210	\$ 4,057	\$ 4,064

Source: State of Hawaii Comprehensive Annual Financial Reports.
 Personal Income and Hawaii Population obtained from State of Hawaii, Data Book.

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

See accompanying independent auditors' report.

STATE OF HAWAII

**Ratios of Net General
Bonded Debt Outstanding**

Last Five Fiscal Years

(Amounts in thousands except ratio data)

Fiscal Year	Taxable Sales(1)	Population(2)	General Obligation Bonded Debt(3)(4)	Less Debt Service Monies Available(3)	Net General Obligation Bonded Debt	Percentage of Taxable Sales	Net General Obligation Bonded Debt Per Capita
2006	\$ 71,669,000	1,289	\$ 4,322,964	\$ 7,226	\$ 4,315,738	6.0%	\$ 3,348
2005	65,878,000	1,275	4,256,633	184	4,256,449	6.5	3,338
2004	61,637,000	1,262	3,954,192	72	3,954,120	6.4	3,133
2003	57,946,000	1,249	3,634,738	148	3,634,590	6.3	2,910
2002	53,331,000	1,241	3,568,001	79	3,567,922	6.7	2,884

(1) Source: State of Hawaii, Department of Taxation.

(2) Source: State of Hawaii, Department of Business, Economic Development and Tourism.

(3) Source: State of Hawaii, Department of Accounting and General Services, Accounting Division.

(4) Excludes Enterprise Funds and Component Unit – UH general obligation bonds.

See accompanying independent auditors' report.

STATE OF HAWAII

Legal Debt Margin Information

Last Five Fiscal Years

(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
Average General Fund revenues of the three preceding fiscal years	\$ 4,423,191	\$ 4,043,868	\$ 3,455,569	\$ 3,530,254	\$ 3,360,531
Constitutional debt limit percentage	18.50%	18.50%	18.50%	18.50%	18.50%
Constitutional debt limit for total principal and interest payable in a current or future year	818,290	748,116	639,280	653,097	621,698
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2009)	(533,810)	(516,641)	(527,561)	(516,753)	(487,048)
Legal debt margin	\$ 284,480	\$ 231,475	\$ 111,719	\$ 136,344	\$ 134,650
Legal debt margin as a percentage of the debt limit	34.8%	30.9%	17.5%	20.9%	21.7%

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

See accompanying independent auditors' report.

STATE OF HAWAII

Pledge Revenue Coverage

Last Five Fiscal Years

(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
Revenue Bonds – Airports					
Gross revenue(1)	\$ 267,927	\$ 245,464	\$ 234,287	\$ 265,714	\$ 218,359
Less: Operating expenses(2)	171,990	150,332	151,717	95,132	141,409
Net available revenue	95,937	95,132	82,570	170,582	76,950
Debt service requirements:					
Principal(3)	30,565	25,250	22,365	19,550	27,185
Interest(4)	11,557	21,516	18,814	15,536	6,275
Total Debt Service	42,122	46,766	41,179	35,086	33,460
Coverage(5)	228%	203%	201%	486%	230%
Revenue Bonds – Harbors:					
Gross revenue(6)	\$ 89,402	\$ 79,319	\$ 78,433	\$ 77,571	\$ 70,873
Less: Operating expenses(7)	35,140	36,053	26,809	35,214	20,992
Net available revenue	54,262	43,266	51,624	42,357	49,881
Debt service requirements	19,265	19,224	21,317	19,652	20,093
Coverage(8)	282%	225%	242%	216%	248%
Revenue Bonds – Highways:					
Revenue	\$ 204,287	\$ 190,438	\$ 185,841	\$ 184,972	\$ 189,238
Less: Operating expenses	172,633	121,776	119,377	124,021	126,938
Net available revenue	31,654	68,662	66,464	60,951	62,300
Debt service:					
Principal	14,295	11,800	11,385	10,635	8,000
Interest	14,096	13,043	13,150	14,140	13,453
Total Debt Service	28,391	24,843	24,535	24,775	21,453
Coverage(9)	111%	276%	271%	246%	290%
Revenue Bonds – Department of Hawaiian Home Lands:					
Revenue	\$ 10,289	\$ 8,611	\$ 7,852	\$ 7,383	\$ 6,672
Less: Operating expenses	6,321	5,601	4,977	4,436	4,173
Net available revenue	3,968	3,010	2,875	2,947	2,499
Debt service:					
Principal	1,250	1,200	1,155	1,115	—
Interest	391	440	487	531	552
Total Debt Service	1,641	1,640	1,642	1,646	552
Coverage(10)	242%	184%	175%	179%	453%

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

Coverage equals net available revenue divided by debt service.

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

See accompanying independent auditors' report.

STATE OF HAWAII

Demographic and Economic Statistics

Last Ten Fiscal Years

Source	For the Fiscal Year Ended June 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Population (in thousands):										
State	1,289	1,275	1,262	1,249	1,241	1,225	1,212	1,210	1,215	1,212
Percentage change	1.09%	1.02%	1.03%	0.64%	1.29%	1.06%	0.17%	-0.41%	0.25%	0.66%
National	N/A	296,410	293,657	290,850	287,985	285,108	282,193	N/A	N/A	N/A
Percentage change	N/A	0.93%	0.96%	0.99%	1.00%	1.02%	N/A	N/A	N/A	N/A
Total Personal Income (in millions):										
State	47,030	43,953	41,175	38,125	36,371	35,127	34,451	32,647	31,757	31,219
Percentage change	6.54%	6.32%	7.41%	4.60%	3.42%	1.92%	5.24%	2.72%	2.38%	N/A
National	N/A	N/A	9,702,525	9,156,108	8,872,521	8,716,992	8,422,074	7,796,137	7,415,709	6,907,332
Percentage change	N/A	N/A	5.63%	3.10%	1.75%	3.38%	7.43%	4.88%	6.86%	N/A
Per Capita Personal Income (in thousands):										
State	N/A	N/A	32,606	30,531	29,462	28,745	28,422	26,973	26,132	25,587
Percentage change	N/A	N/A	6.36%	3.50%	2.43%	1.12%	5.10%	3.12%	2.09%	2.20%
National	N/A	N/A	33,041	31,487	30,814	30,575	29,845	27,939	26,883	25,334
Percentage change	N/A	N/A	4.70%	2.14%	0.78%	2.39%	6.39%	3.78%	5.76%	1.22%
Resident Civilian Labor Force and Employment:										
Civilian labor force employed	632,460	616,871	598,904	290,746	585,683	589,221	584,858	576,321	570,154	566,763
Unemployed	17,365	17,742	20,254	23,930	24,746	26,037	24,159	30,346	34,154	34,900
Unemployment rate	2.70%	2.80%	3.30%	3.90%	4.10%	4.20%	4.00%	5.00%	5.70%	5.80%

Source: State of Hawaii, Data Book 2005.

U.S. Census Bureau and State of Hawaii, Department of Labor.

Notes: Population estimates have been restated to most current State of Hawaii, Data Book 2005.

National population for 2005 obtained from U.S. Census Bureau.

State personal income for 2005 is preliminary amount.

Unemployment data from 1997 to 2005 reflects new modeling approach (redesign) and reestimation.

2000-2005 have been benchmarked. Reflects revised population controls and model reestimation through 2005.

N/A Not available.

See accompanying independent auditors' report.

STATE OF HAWAII

Ten Largest Private Sector Employers

Last Two Fiscal Years

Employer	2006		2005	
	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment
Aloha Airgroup, Inc.	3,375	0.5%	3,701	0.6%
Hawaii Pacific Health	5,500	0.9	5,449	0.9
Hawaiian Airlines	3,300	0.5	3,300	0.5
Hawaiian Electric Industries, Inc.	3,383	0.5	3,354	0.5
Kaiser Permanente Medical Care Program	3,969	0.6	3,918	0.6
Kyo-ya Co., Ltd.	3,807	0.6	3,574	0.6
Marriott International	5,835	0.9	3,698	0.9
McDonald's Restaurants of Hawaii	3,775	0.6	3,750	0.6
NCL America	3,515	0.6	—	—
The Queen's Health System	4,351	0.7	3,673	0.6
Starwood Hotels and Resort Hawaii	2,377	0.4	3,500	0.9

Source: Hawaii Business, August 2005 and August 2006.

State of Hawaii, Department of Business, Economic Development and Tourism.

Notes: Total Annual Average Employment for Hawaii for calendar years 2006 and 2005 totaled 631,450 and 616,850, respectively.

Listed alphabetically.

See accompanying independent auditors' report.

STATE OF HAWAII
State Employees by Function

Last Three Fiscal Years

	For the Fiscal Year Ended June 30,		
	2006	2005	2004
General government	4,638	4,698	4,713
Public safety	2,881	2,828	2,882
Transportation	2,287	2,266	2,325
Conservation of natural resources	1,040	976	974
Health	6,906	6,697	6,965
Welfare	2,386	2,400	2,373
Lower education	22,771	22,104	22,201
Higher education	8,375	8,108	8,137
Other education	523	505	490
Urban redevelopment and housing	136	131	127
Economic development and assistance	864	912	969
Total	<u>52,807</u>	<u>51,625</u>	<u>52,156</u>

Source: State of Hawaii, Department of Human Resources Development.

See accompanying independent auditors' report.

STATE OF HAWAII

Operating Indicators by Function

Last Five Fiscal Years

	For the Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
General Government					
Tax Commission:					
Total individual net income returns	\$ 602,375	\$ 595,035	\$ 579,252	\$ 583,417	\$ 572,592
Number of individual net income returns filed electronically	196,959	156,199	135,922	113,559	80,000
Percentage of individual net income returns transmitted electronically	32.70%	27.63%	24.06%	19.81%	14.28%
Public Safety					
Inmate population:					
In-state facilities	6,251	6,092	5,958	5,540	5,569
Out-of-state facilities	1,844	1,730	1,694	1,295	1,232
Total	8,095	7,822	7,652	6,835	6,801
Conservation and Natural Resources					
Department of Parks and Recreation:					
Recreation visits (in thousands)	N/A	N/A	9	14	14
Health					
Environmental health:					
Air quality sites monitored	16	N/A	N/A	N/A	N/A
Water sites monitored	100	N/A	N/A	N/A	N/A
Mental health:					
Adult consumers served	12,245	10,136	7,543	N/A	N/A
Individuals with developmental disabilities served	2,300	3,302	2,965	N/A	N/A
Revolving loan funds	65	53	49	N/A	N/A
Welfare					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF):					
Families per month average	N/A	10,642	11,915	14,362	16,940
Average time on assistance	N/A	15.0	15.4	16.0	14.8
Monthly benefits paid for the month of July (in millions)	N/A	5.96	6.26	6.76	8.68
General assistance:					
Individuals per month	N/A	3,994	4,112	4,432	4,867
Food stamp program:					
Number of persons participating	N/A	95,032	99,126	100,569	106,747
Number of households participating	N/A	47,795	48,569	48,815	50,965
Benefits issued (in millions)	N/A	\$ 12.98	\$ 12.77	\$ 12.90	\$ 12.60
Medicaid programs:					
MedQuest enrollment (in thousands)	N/A	1,925	1,823	N/A	N/A
Lower Education					
Number of schools	N/A	285	284	283	279
Number of students	N/A	181,897	182,434	182,798	183,629
Staff:					
Classroom teachers	N/A	11,146.0	11,128.5	10,973.4	N/A
Librarians	N/A	291.0	282.0	281.5	N/A
Counselors	N/A	657.0	647.5	648.5	N/A
Administrators	N/A	701.4	692.4	692.4	N/A
Other support staff	N/A	7,735.3	8,361.4	8,107.1	N/A
Total	N/A	20,530.7	21,111.8	20,702.9	N/A

STATE OF HAWAII

Operating Indicators by Function (Cont'd)

Last Five Fiscal Years

	For the Fiscal Year Ended June 30,				
	2006	2005	2004	2003	2002
Higher Education					
Enrollment:					
Number of credit students	N/A	50,157	50,569	50,317	48,173
Degrees earned:					
Certificates	N/A	324	300	336	349
Associate degrees	N/A	2,346	2,296	2,375	2,204
Advanced professional certificates	N/A	1	—	—	—
Bachelor's degrees	N/A	3,294	3,273	3,010	2,910
Professional diploma	N/A	119	144	81	99
Master's degrees	N/A	1,143	978	1,018	838
Doctor's degrees	N/A	149	109	128	105
First professional	N/A	161	146	128	135
Other	N/A	—	—	—	—
Total	N/A	7,537	7,246	7,076	6,640
Degrees by campus/college:					
University of Hawaii at Manoa	N/A	4,175	3,859	3,696	3,454
University of Hawaii at Hilo	N/A	497	579	502	454
University of Hawaii at West Oahu	N/A	194	212	167	179
Hawaii Community College	N/A	315	317	308	293
Honolulu Community College	N/A	561	570	687	469
Kapiolani Community College	N/A	731	649	608	702
Kauai Community College	N/A	165	89	123	130
Leeward Community College	N/A	482	534	559	525
Maui Community College	N/A	306	308	293	296
Windward Community College	N/A	111	129	133	138
Total	N/A	7,537	7,246	7,076	6,640

N/A Not available.

Notes: Migration to new registration system at the UH Community Colleges in Fall 2002 and at UH at Manoa, UH at Hilo, and UH at West Oahu in Fall 2003.

Source: General Government – State of Hawaii, Department of Taxation.
 Public Safety – State of Hawaii, Department of Public Safety.
 Conservation of Natural Resources – State of Hawaii, Department of Land and Natural Resources
 Health – State of Hawaii, Department of Health.
 Welfare – State of Hawaii, Department of Human Services.
 Lower Education – State of Hawaii, Department of Education.
 Higher Education – University of Hawaii.

See accompanying independent auditors' report.

STATE OF HAWAII

Capital Assets Statistics by Function

Last Two Fiscal Years

	For the Fiscal Year Ended June 30,		For the Fiscal Year Ended June 30,	
	2006	2005	2006	2005
<u>General Government</u>				
Department of Accounting and General Services:				
Buildings	10	10		
Vehicles	581	701		
Department of the Attorney General:				
Buildings	5	5		
Vehicles	1	1		
The Judiciary:				
Buildings	17	17		
Vehicles	15	43		
Other Departments:				
Buildings	21	21		
Vehicles	6	6		
<u>Public Safety</u>				
Department of Public Safety:				
Buildings and Correction Facilities	71	72		
Vehicles	241	228		
Department of Defense:				
Buildings	98	93		
Vehicles	77	80		
Department of Commerce and Consumer Affairs:				
Buildings	4	4		
<u>Highways</u>				
Department of Transportation:				
Highway lane miles	N/A	2,438		
Highway bridges	N/A	752		
Buildings	26	26		
Vehicles	918	894		
<u>Conservation of Natural Resources</u>				
Department of Land and Natural Resources:				
Land area (in square miles)	6,423	6,423		
Buildings	75	75		
Vehicles	597	669		
Department of Agriculture:				
Buildings	27	27		
Vehicles	167	166		
<u>Health</u>				
Department of Health:				
Buildings			69	68
Vehicles			283	290
<u>Welfare</u>				
Department of Human Services:				
Buildings			18	18
Vehicles			134	132
<u>Lower Education</u>				
Department of Education:				
Buildings			8	7
<u>Other Education</u>				
Department of Education – Libraries:				
Buildings			34	34
Vehicles			33	32
<u>Urban Redevelopment and Housing</u>				
Department of Hawaiian Home Lands:				
Buildings			15	12
Vehicles			29	26
<u>Economic Development and Assistance</u>				
Department of Business, Economic Development and Tourism:				
Buildings			30	28
Vehicles			36	40
Department of Labor and Industrial Relations:				
Buildings			8	8
Vehicles			2	6

Source: Buildings and Vehicles – State of Hawaii, Department of Accounting and General Services.
 Lane Miles and Bridges – State of Hawaii, Department of Transportation.
 Land Area – State of Hawaii, Data Book 2005.

See accompanying independent auditors' report.

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