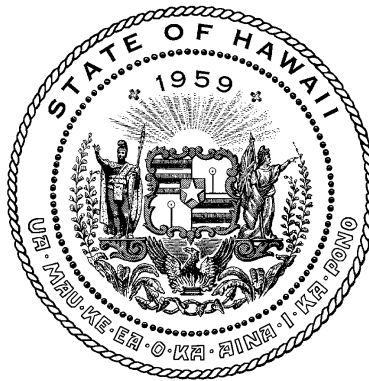


STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

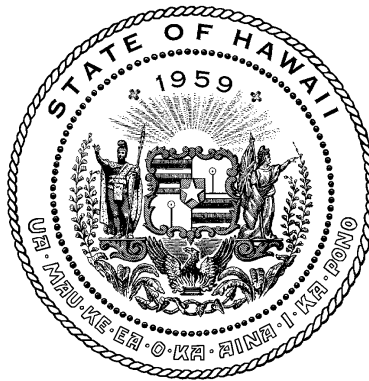


RUSS K. SAITO
COMPTROLLER

STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004



PREPARED BY
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

RUSS K. SAITO
COMPTROLLER

STATE OF HAWAII

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June 30, 2004

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PART I: INTRODUCTORY SECTION

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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2004



Russ K. Saito
Comptroller

Governor
Director of Finance
Director of Taxation
Comptroller

Linda Lingle
Georgina Kawamura
Kurt Kawafuchi
Russ K. Saito

Notes:

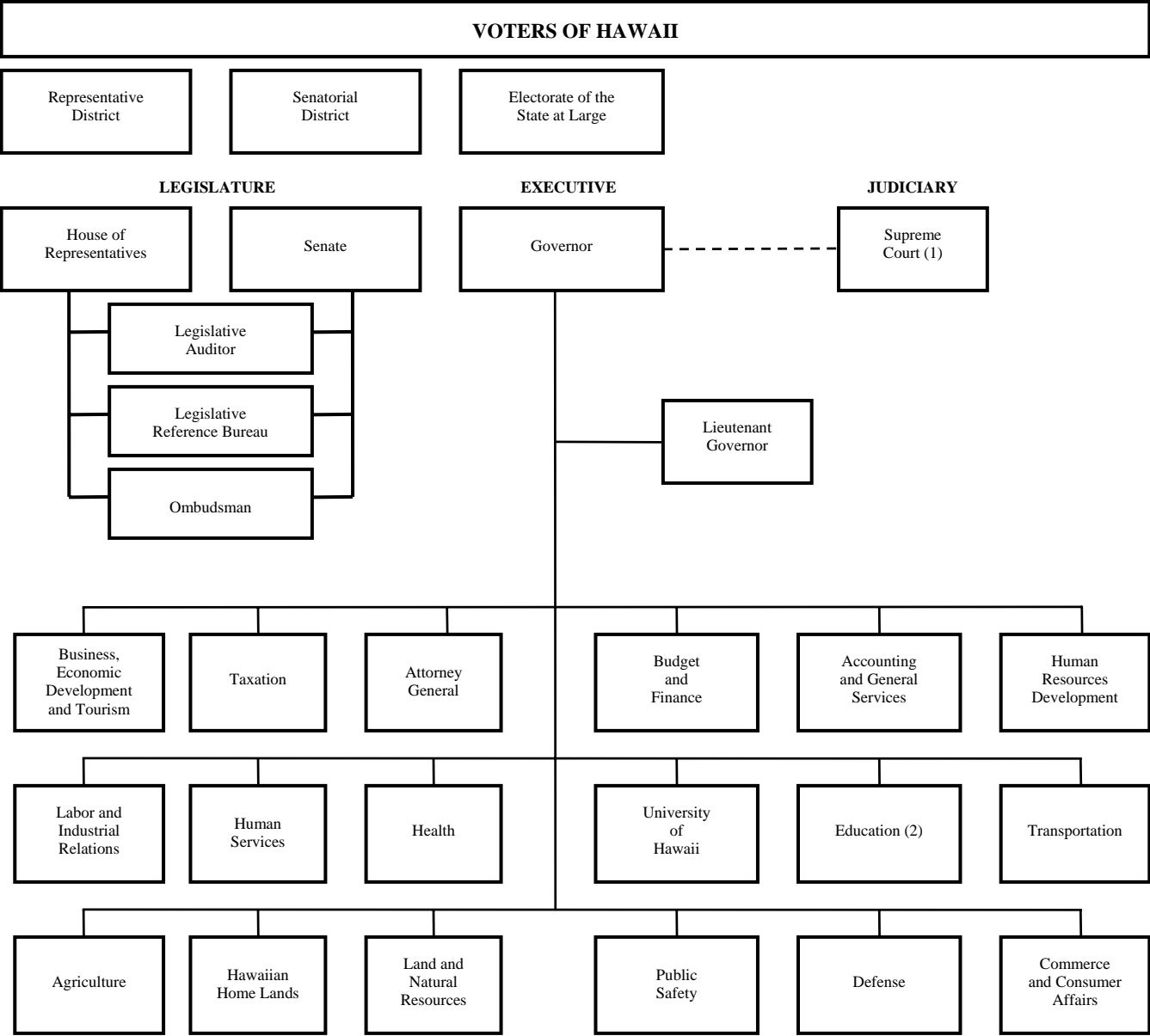
The Director of Finance is also department head of the Department of Budget and Finance.

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, 2004



(1) The Governor’s appointment of justices of the Supreme Court confirmed by the Senate.
 (2) Board of Education elected.



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

December 31, 2004

To the Honorable Governor of the State of Hawaii
To the Honorable Members of the Twenty-Third 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, 2004. 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, and a list of principal officials. The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), basic financial statements, notes to basic financial statements, and supplementary information. The statistical section includes selected financial and demographic information.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of 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.

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, 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 the fiscal independence and/or separate legal entity status criteria of GASB Statement No. 14, are not accountable to the State.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the 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

Currently, virtually all economic indicators of the Hawaii economy are strongly positive. This fortunate condition results from the confluence of several factors: the rebound of the visitor industry, continued strong investment in construction and real estate, and increased federal spending. The health of the visitor sector can be attributed most clearly to the continued growth in the domestic market, but it is also being supported by the returning strength of the Japanese economy. Hawaii currently has the lowest unemployment rate of any State in the nation and is among the top 10 in personal income growth.

Labor

Hawaii's civilian labor force and employment are both higher in the first eight months of 2004 than they were in the same period of 2003, having increased 2.3% and 3.1%, respectively. During the first eight months of the year, an average of 607,250 people were employed in Hawaii, 18,300 more than the year before. The unemployment rate was down to 3.5% in the first eight months of 2004 from 4.2% in the same period last year.

The number of wage and salary jobs was up 2.2% for the first eight months of 2004 compared to the same period in 2003. Jobs are up most notably in retail trade (1,850 jobs); health care and social assistance (1,700 jobs); professional and business services (1,650 jobs); food services and drinking places (1,650 jobs); and natural resources, mining, and construction (1,100 jobs).

Taxes

General Fund tax revenues increased in the first eight months of 2004 over the same period in 2003. This overall increase is the result of strong increases in all three major taxes: general excise and use tax (GET), individual income tax, and corporate income taxes. Tax revenues distributed to the General Fund were up 17.4% for the first eight months of 2004 compared to the same period in 2003. Revenues from the GET increased by 11.4% and net individual income tax was up by 21.3%. Net corporate income taxes, which were negative through the first eight months of 2003, were up more than \$50 million for the first eight months of 2004. Transient accommodations tax (TAT) revenues increased 16.2%.

Personal Income

Nominal personal income in Hawaii was 5.8% or \$2.2 billion higher in the second quarter of 2004 compared to the second quarter of 2003, the period for which the most recent data are available from the U.S. Bureau of Economic Analysis. Supplements to wages and salaries (formerly other labor income) showed the highest rate of increase (9.8%) followed by proprietors' income (8.3%); wages and salaries (5.8%); personal current transfer receipts (formerly transfer payments, 4.8%); and dividends, interest, and rent (2.8%). All non-farm industries saw year-to-year quarterly increases in earnings.

Prices

Inflation in Hawaii began to pick up slightly during the second half of 2003 and continued upward in the first half of 2004. The Honolulu Consumer Price Index for all urban consumers (CPI-U) rose by 3.3% in the first half of 2004 compared to the same period in 2003. This was somewhat higher than the 2.3% inflation experienced on the Mainland during the period. The increase in Honolulu's CPI was led by a 4.1% increase in the most heavily weighted category, housing.

Recent Developments in Hawaii's Major Industries

Visitor Industry

The number of visitors arriving by air increased 8.6% comparing the first eight months of 2004 to the first eight months of 2003. Domestic arrivals were up 6.6% and international arrivals (visitors on flights originating outside the United States) increased 13.8%. The large increase in international visitors is primarily the result of the rebound in the Japanese market. The number of visitor days (visitor arrivals multiplied by average length of stay) increased 4.3% during the first eight months of 2004 over the same period in 2003. Visitor days increased less than visitor arrivals, because average length of stay declined 3.9% during the first eight months of 2004. Hotel occupancy rates were up 6.3% points, increasing from 73.3% in the first eight months of 2003 to 79.6% in the same period in 2004. Average daily room rates for the first eight months of 2004 increased 4.5% statewide over that period in 2003.

Construction

The Hawaii construction industry activity continued to grow in the first half of 2004. The general excise tax base for contracting increased by 0.3% to remain above \$2.3 billion for the first six months of 2004. Total private building authorizations increased 10.0% compared with the first half of 2003. Jobs in the construction industry for the first eight months of 2004 were up 3.9% higher than the January through August period of 2003. Government contracts awarded during the first six months of 2004 were up to over \$1 billion from about \$250 million in the first half of 2003.

Agriculture

The agriculture sector expanded during the first eight months of 2004 based on the number of wage and salary jobs in the sector. Agricultural wage and salary jobs increased 2.7% over the first eight months of 2003, to more than 7,700 jobs in August.

Outlook for Hawaii's Economy

Hawaii's economic outlook remains positive. Hawaii's economy remains a function of its visitor market and of the U.S. and Japan economies. The consensus projections of the U.S. economy have been optimistic since the end of 2003. The Blue Chip Economic Indicators (Blue Chip) (a consensus of 50 top U.S. economic forecasts) expects real Gross Domestic Product to rise to 4.5% in 2004 and by 3.8% in 2005. The Japanese real Gross Domestic Product is estimated to increase by 3.0% in 2004 and 2.3% in 2005.

State economists at the Department of Business, Economic Development and Tourism (DBEDT) expect the visitor industry to show a faster growth in 2004 than previous forecasts. Revised 2004 forecasts for visitor arrivals and visitor expenditures are a 7.0% increase. In 2005, visitor arrivals are forecast to grow by 2.9% and visitor expenditures by 4.8%. Visitor days are forecast to increase by 4.5% in 2004 and by 2.4% in 2005.

Real Personal Income is forecast to show a 2.9% increase in 2004 while real Gross State Product (GSP) should expand at a 2.6% annual rate. Both indicators are forecast to increase by 2.6% and 2.3% in 2005. Wage and salary jobs should increase by 2.1% in 2004 and by 1.3% in 2005.

DBEDT expects inflation, as measured by changes in the Honolulu CPI, to grow at a 2.5% rate in 2004 and 2.3% in 2005. The GSP deflator, which is estimated based on the Blue Chip U.S. Gross Domestic Product projection, is forecast to reach 2.5% in 2004 and 2.4% in 2005.

MAJOR INITIATIVES

Major Capital Improvement Projects

For fiscal 2004, state funding for major capital improvement projects focused on economic development, education, highways, and general government. They include \$17 million for the Kakaako Makai improvement development; \$32 million for various public school projects, including \$12 million for the first increment of the Maui Lani Elementary School; \$53 million for various highway projects; and \$33 million for the new Hilo Judiciary Complex in Hilo, Hawaii.

Education Reform

The State Legislature enacted legislation (Act 51, Session Laws of Hawaii of 2004), known as the *Reinventing Education Act of 2004*, to implement education reform and decentralization measures and establish a weighted student formula for providing operating monies to individual public schools. This act authorizes the transfer of many key functions from various state agencies to the Department of Education. It also establishes a school community council at each public school to work together with the principal regarding the school's academic and financial plans. Under the weighted student formula, the relative cost of educating students can be much more accurately assessed (based upon the unique learning needs of each student), funds follow students to whichever school they attend, and the budget process becomes more transparent.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

1. Transactions are executed in accordance with management's general and specific authorization.
2. Transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 program. Budgeted expenditures are derived primarily from the General Appropriations Act of 2003, as amended, 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, 2004. To the extent not expended or encumbered, General Fund and Special Revenue Funds 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 2004, the State Treasury earned \$15.7 million for the General Fund by investing its temporary cash surpluses, a decrease of \$9.1 million from the amount earned in the previous fiscal year. The fiscal 2004 earnings represent an average investment yield of 2.4%, a decrease of 0.9% 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 is \$25 million. 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, 2004. The Independent Auditor's 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, 2003. This was the fifteenth 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 accounting principles generally accepted in the United States of America 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,

A handwritten signature in cursive script that reads "Russ K Saito".

Russ K. Saito
Comptroller, State of Hawaii

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, 2003

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.



Nancy L. Zjelke

President

Jeffrey R. Emer

Executive Director

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PART II: FINANCIAL SECTION

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KPMG LLP
P.O. Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

Comptroller
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, 2004, 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 88% and 62%, respectively, of the assets and revenues of the business-type activities, and the University of Hawaii, the Housing and Community Development Corporation of Hawaii, and the Hawaii Health Systems Corporation, which represent 94% and 99%, respectively, 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, and the Hawaii Health Systems Corporation, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2004 on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 15 through 29 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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

December 31, 2004

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2004

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, 2004. 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 – 8 of this report.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2004 by \$8.3 billion (net assets). Of this amount, \$1.3 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 \$241.7 million and net assets of business-type activities increased by \$21.9 million for a net decrease to the State of \$219.8 million from the prior fiscal year.

Fund Highlights

At June 30, 2004, the State's Governmental Funds reported combined ending fund balances of \$1.9 billion, an increase of \$276.8 million from the prior fiscal year. Of this amount, \$192.7 million or 10.02% of total fund balances are available for spending at the State's discretion (unreserved fund balance) and the remaining \$1.7 billion represents amounts reserved for specific purposes. The Proprietary Funds reported net assets at June 30, 2004 of \$2.4 billion, an increase of \$21.9 million during the fiscal year.

Long-Term Liabilities

The State's long-term liabilities increased during the current fiscal year to \$5.9 billion, an increase of \$219.6 million or 3.86%. During fiscal 2004, the State issued \$450 million in general obligation bonds for the purpose of financing public improvement projects and \$212.4 million in general obligation refunding bonds to advance refund \$215.5 million of previously issued outstanding general obligation bonds. The State maintained its Aaa bond rating with Moody's Investors Service and AAA bond rating with Standard and Poor's Corporation and Fitch IBCA, Inc.

Overview of the Basic Financial Statements

This discussion and analysis are 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.

Management's Discussion and Analysis

June 30, 2004

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

Management's Discussion and Analysis

June 30, 2004

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures, and changes in fund balances (deficit) for the General Fund and Capital Projects Fund, each of which are considered to be major funds. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

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

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 51 – 100 of this report.

STATE OF HAWAII

Management’s Discussion and Analysis

June 30, 2004

Other Supplementary Information

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

Government-Wide Financial Analysis

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

Net assets are a useful indicator of a government’s financial position. For the State, total assets exceed liabilities by \$8.3 billion, and decreased \$219.8 million or 2.58% over the course of this fiscal year’s operations. The net assets of the governmental activities decreased by \$241.7 million or 3.92% and business-type activities had an increase of \$21.9 million or 0.93%. The following table was derived from the government-wide statement of net assets.

		Net Assets					
		June 30, 2004 and 2003					
		(Amounts in thousands)					
		Primary Government					
		Governmental Activities		Business-Type Activities		Total	
		2004	2003	2004	2003	2004	2003
Assets:							
Current and other assets	\$	2,156,531	\$ 1,839,808	\$ 1,512,552	\$ 1,479,094	\$ 3,669,083	\$ 3,318,902
Capital assets		8,951,040	9,133,142	2,034,661	2,069,873	10,985,701	11,203,015
Total assets		<u>11,107,571</u>	<u>10,972,950</u>	<u>3,547,213</u>	<u>3,548,967</u>	<u>14,654,784</u>	<u>14,521,917</u>
Liabilities:							
Long-term liabilities		4,861,410	4,569,089	1,053,171	1,125,889	5,914,581	5,694,978
Other liabilities		324,520	240,505	121,601	86,028	446,121	326,533
Total liabilities		<u>5,185,930</u>	<u>4,809,594</u>	<u>1,174,772</u>	<u>1,211,917</u>	<u>6,360,702</u>	<u>6,021,511</u>
Net assets (deficit):							
Invested in capital assets, net of related debt		4,654,693	5,140,822	1,129,619	1,104,914	5,784,312	6,245,736
Restricted		1,062,585	1,115,472	169,816	167,155	1,232,401	1,282,627
Unrestricted		204,363	(92,938)	1,073,006	1,064,981	1,277,369	972,043
Total net assets	\$	<u><u>5,921,641</u></u>	<u><u>6,163,356</u></u>	<u><u>2,372,441</u></u>	<u><u>2,337,050</u></u>	<u><u>8,294,082</u></u>	<u><u>8,500,406</u></u>

Management's Discussion and Analysis

June 30, 2004

Analysis of Net Assets

By far the largest portion of the State's net assets (\$5.8 billion or 69.74%) 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 (\$1.2 billion or 14.86%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets (\$1.3 billion or 15.40%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2004, 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 decreased by \$219.8 million or 2.58% during the fiscal year ended June 30, 2004. Approximately 59.26% of the State's total revenues came from taxes, while 27.72% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 12.12% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, and transportation (highways, airports, and harbors).

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2004

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

Changes in Net Assets

For the Fiscal Years Ended June 30, 2004 and 2003

(Amounts in thousands)

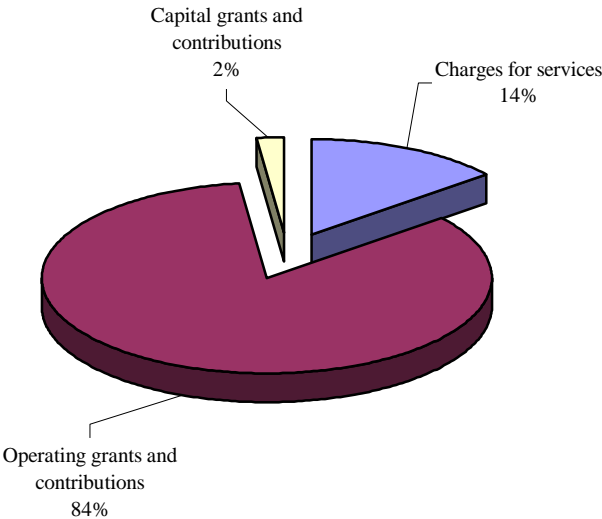
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 283,459	\$ 212,993	\$ 482,994	\$ 516,523	\$ 766,453	\$ 729,516
Operating grants and contributions	1,687,923	1,586,719	—	—	1,687,923	1,586,719
Capital grants and contributions	40,001	69,377	24,253	28,166	64,254	97,543
General revenues:						
Taxes	3,745,883	3,441,398	—	—	3,745,883	3,441,398
Interest and investment income	41,903	60,724	24,759	33,695	66,662	94,419
Other	(6,180)	8,344	(3,478)	1,416	(9,658)	9,760
Total revenues	<u>5,792,989</u>	<u>5,379,555</u>	<u>528,528</u>	<u>579,800</u>	<u>6,321,517</u>	<u>5,959,355</u>
Expenses:						
General government	427,820	475,517	—	—	427,820	475,517
Public safety	239,932	252,741	—	—	239,932	252,741
Highways	413,215	439,923	—	—	413,215	439,923
Conservation of natural resources	69,693	48,918	—	—	69,693	48,918
Health	520,433	515,492	—	—	520,433	515,492
Welfare	1,547,732	1,418,224	—	—	1,547,732	1,418,224
Lower education	1,795,482	1,660,595	—	—	1,795,482	1,660,595
Higher education	480,296	537,709	—	—	480,296	537,709
Other education	23,092	38,161	—	—	23,092	38,161
Culture and recreation	64,052	71,738	—	—	64,052	71,738
Urban redevelopment and housing	59,394	42,713	—	—	59,394	42,713
Economic development and assistance	214,206	231,605	—	—	214,206	231,605
Interest expense	179,357	200,864	—	—	179,357	200,864
Airports	—	—	273,546	291,871	273,546	291,871
Harbors	—	—	54,432	61,448	54,432	61,448
Unemployment compensation	—	—	176,135	204,344	176,135	204,344
Nonmajor proprietary fund	—	—	2,496	789	2,496	789
Total expenses	<u>6,034,704</u>	<u>5,934,200</u>	<u>506,609</u>	<u>558,452</u>	<u>6,541,313</u>	<u>6,492,652</u>
Change in net assets before transfers	(241,715)	(554,645)	21,919	21,348	(219,796)	(533,297)
Transfers	—	(517)	—	687	—	170
Change in net assets	<u>(241,715)</u>	<u>(555,162)</u>	<u>21,919</u>	<u>22,035</u>	<u>(219,796)</u>	<u>(533,127)</u>
Net assets – beginning, as previously reported	6,163,356	6,718,518	2,337,050	2,315,015	8,500,406	9,033,533
Adjustments	—	—	13,472	—	13,472	—
Net assets – beginning, as restated	<u>6,163,356</u>	<u>6,718,518</u>	<u>2,350,522</u>	<u>2,315,015</u>	<u>8,513,878</u>	<u>9,033,533</u>
Net assets – ending	<u>\$ 5,921,641</u>	<u>\$ 6,163,356</u>	<u>\$ 2,372,441</u>	<u>\$ 2,337,050</u>	<u>\$ 8,294,082</u>	<u>\$ 8,500,406</u>

Management's Discussion and Analysis

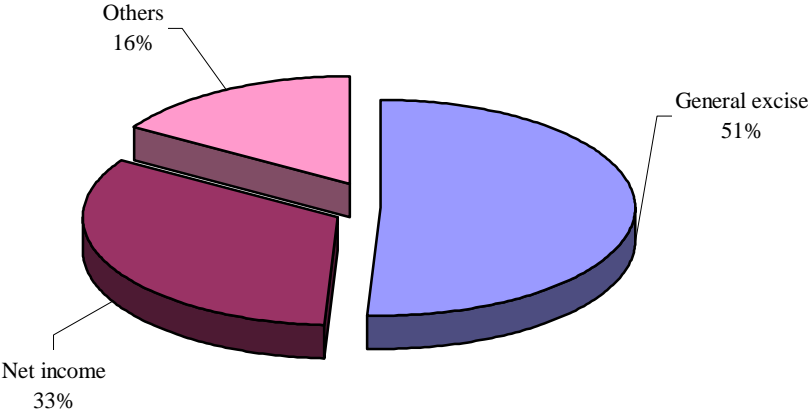
June 30, 2004

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

**Program Revenues By Source – Governmental Activities
Fiscal Year Ended June 30, 2004**



**Tax Revenues By Source – Governmental Activities
Fiscal Year Ended June 30, 2004**



STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2004

Analysis of Changes in Net Assets

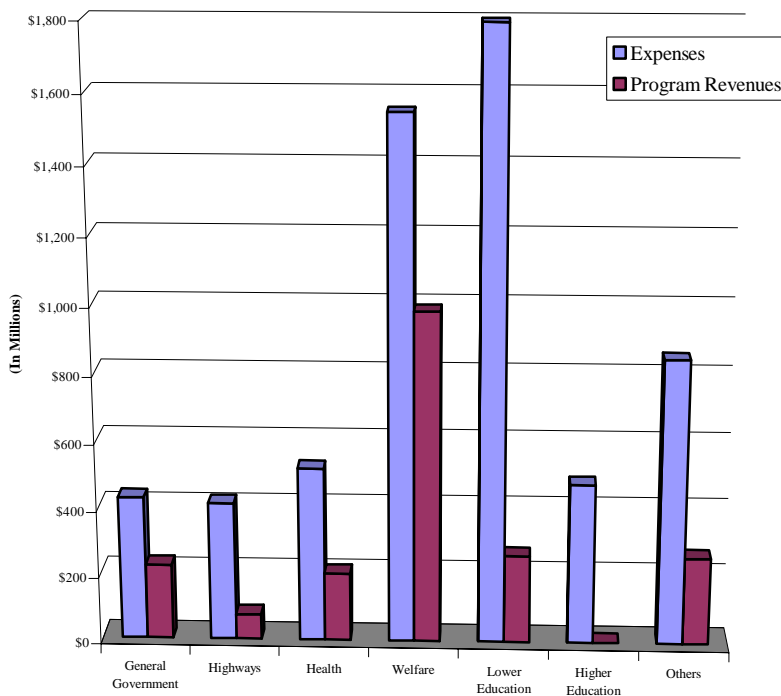
The State's net assets decreased by \$219.8 million during the current fiscal year. This decrease is explained in the governmental and business-type activities discussion below, and is primarily a result of an increase in expenses despite an increase in revenues.

Governmental Activities

Governmental activities decreased the State's net assets by \$241.7 million. Key elements of this decrease are a result of higher expenses for lower education and welfare.

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, 2004**



STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2004

	Governmental Activities	
	2004	2003
Expenses net of program revenues:		
General government	\$ 203,939	\$ 236,851
Public safety	174,287	200,780
Highways	337,774	328,737
Conservation of natural resources	7,466	(8,366)
Health	317,158	338,728
Welfare	562,381	537,183
Lower education	1,531,996	1,437,936
Higher education	480,296	537,709
Other education	22,572	37,917
Culture and recreation	54,760	61,934
Urban redevelopment and housing	44,413	34,252
Economic development and assistance	106,922	120,586
Interest expense	179,357	200,864
	<hr/>	<hr/>
Total governmental activities expenses net of program revenues	4,023,321	4,065,111
	<hr/>	<hr/>
General revenues:		
Taxes	3,745,883	3,441,398
Interest and investment income	41,903	60,724
Other	(6,180)	8,344
Transfers	—	(517)
	<hr/>	<hr/>
Total general revenues and transfers	3,781,606	3,509,949
	<hr/>	<hr/>
Decrease in governmental activities net assets	\$ 241,715	\$ 555,162
	<hr/> <hr/>	<hr/> <hr/>

The increase of \$94.1 million or 6.54% for lower education from the previous fiscal year was primarily due to an increase in expenses of \$74.9 million for school-based budgeting and comprehensive school support services.

The general tax revenues increased by \$304.5 million or 8.85% from the previous fiscal year. The increase was primarily due to increases in general excise taxes of \$122.5 million and in individual and corporate income taxes of \$190.1 million, which were offset by a decrease in public service companies taxes of \$14.6 million.

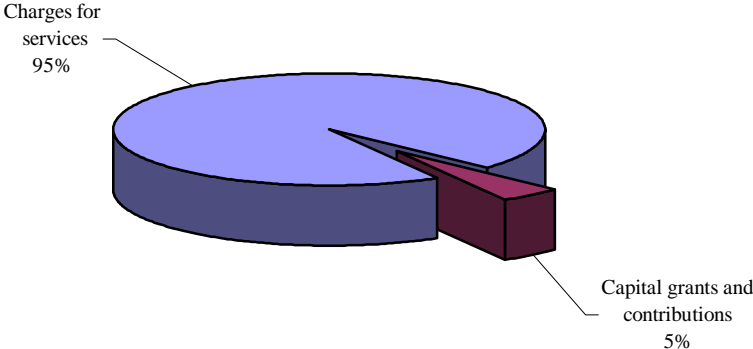
Management's Discussion and Analysis

June 30, 2004

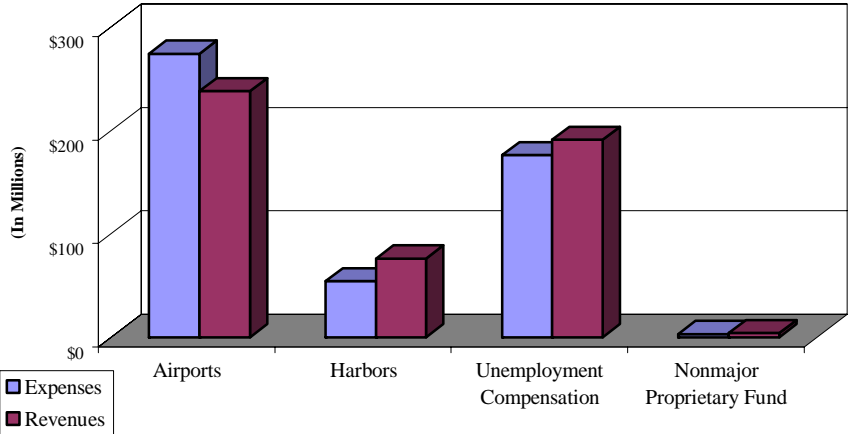
Business-Type Activities

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, 2004**



**Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2004**



STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2004

Business-type activities increased the State's net assets by \$21.9 million or 0.93%, during the current fiscal year. Key elements of this increase are as follows.

- Airport's net assets decreased \$17.8 million during the fiscal year ended June 30, 2004. The decrease was primarily due to decreases in concession fees of \$17.1 million and interest income of \$7.8 million, which were offset by a decrease in operation expenses of \$12.3 million. The decrease in concession revenues was primarily attributed to the settlement agreement with the DFS Group L.P. that lowered the minimum annual rent.
- Harbor's net assets increased \$25.0 million or 4.67% from the prior fiscal year. Operating income increased \$11.8 million due to an increase in service revenues of \$3.4 million and decreases in repair and maintenance of \$3.4 million and operation expenses of \$4.8 million.
- The Unemployment Compensation Fund's net assets increased \$14.4 million from operating income in the current fiscal year.

Key elements of the State's business-type activities for the fiscal year ended June 30, 2004 and 2003, are as follows:

	Business-Type Activities									
	(Amounts in Thousands)									
	Program Revenues						Expenses			
	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Airports	\$ 214,878	\$ 236,970	\$ 23,516	\$ 25,624	\$ 238,394	\$ 262,594	\$ 273,546	\$ 291,871	\$ (35,152)	\$ (29,277)
Harbors	74,768	70,103	737	2,542	75,505	72,645	54,432	61,448	21,073	11,197
Unemployment compensation	190,580	209,450	—	—	190,580	209,450	176,135	204,344	14,445	5,106
Nonmajor proprietary fund	2,768	—	—	—	2,768	—	2,496	789	272	(789)
Total	\$ 482,994	\$ 516,523	\$ 24,253	\$ 28,166	\$ 507,247	\$ 544,689	\$ 506,609	\$ 558,452	\$ 638	\$ (13,763)

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.

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2004

As of the end of the current fiscal year, the State's Governmental Funds reported combined ending fund balances of \$1.9 billion, an increase of \$276.8 million over the prior fiscal year. Approximately \$192.7 million or 10.02% of this total amount constitutes unreserved fund balance, which is available for spending at the State's discretion in the coming fiscal year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use (\$1.3 billion), (2) for notes and loan receivable, advances and investments (\$246.9 million), (3) for federal aid highway projects encumbrances (\$179.5 million), or (4) for a variety of other restricted purposes (\$33.4 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 \$401.3 million, an increase of \$110.9 million or 38.17% over the prior fiscal year, and the reserved fund balance was \$217.8 million, an increase of \$5.4 million or 2.54% 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 11.93% of total General Fund expenditures, an increase of 3.15% over the prior fiscal year, while total fund balance represents 18.41% of that same amount, an increase of 3.21% over the prior fiscal year.

The fund balance of the State's General Fund increased by \$116.3 million during the current fiscal year, which was due primarily to an increase in tax revenues and a slight increase in expenditures for higher and lower education, health, and public safety. The fund balance of the State's Capital Projects Fund increased by \$105.7 million during the current fiscal year. The increase was due primarily to a \$150 million increase in the issuance of general obligation bonds for financing public improvement projects. The fund balance of the State's other nonmajor Governmental Funds increased by \$54.9 million during the current fiscal year. The increase was due to a decrease of transfers from the nonmajor Special Revenue Funds to the General Fund.

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 a decrease in net assets of \$17.8 million, Harbors had an increase in net assets of \$25.0 million, and the Unemployment Compensation Fund had an increase in net assets of \$14.4 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 \$163.8 million, representing an increase of \$26.6 million in total net assets since June 30, 2003.

Management's Discussion and Analysis

June 30, 2004

General Fund Budgetary Highlights

The General Fund revenues was \$83.8 million or 2.22% more than the final budget. The increase was primarily attributed to higher net income taxes of \$66.5 million.

The General Fund expenditure budget increased by \$50.9 million from the original to the final budget. Most of the increase is due to the original budget consisting only of the appropriations contained in the general appropriation acts of the executive and judicial branches. Budgets that are not part of this original budget include: \$38.4 million in employees' salary adjustments; \$21.7 million for the State Legislature; and \$9.2 million for claims and settlements against the State; offset by a reduction in authorization of \$20.0 million for debt service and health benefit payments. The difference between the final budget and actual expenditures on a budgetary basis was \$50.6 million. The positive variance in lower education resulted when the Department of Education carried over \$13.4 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 in the School-Based Budgeting and Comprehensive School Support Services programs. The positive variance in general government is primarily attributed to \$8.1 million of appropriations made to the State Legislature that can be carried over to the next fiscal year, and \$5.3 million appropriated for program planning, analysis, and budgeting for the Department of Budget and Finance.

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, 2004 amounted to \$11.0 billion (net of accumulated depreciation of \$6.0 billion). This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2004, included the following:

- \$33.0 million for a new Judiciary Complex in Hilo, Hawaii.
- \$17.0 million for the Kakaako Makai improvement project.
- \$98.0 million for various capital improvement projects and the repairs and maintenance of public school facilities throughout the State.

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

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2004

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of \$5.2 billion. Of this amount, \$3.9 billion comprises debt backed by the full faith and credit of the State and \$1.3 billion (i.e., revenue bonds) is revenue bonded debt which is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt

June 30, 2004 and 2003

(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
General obligation bonds	\$ 3,954,192	\$ 3,634,738	\$ 196	\$ 225	\$ 3,954,388	\$ 3,634,963
Revenue bonds	276,680	288,470	1,006,126	1,064,676	1,282,806	1,353,146
Total	\$ 4,230,872	\$ 3,923,208	\$ 1,006,322	\$ 1,064,901	\$ 5,237,194	\$ 4,988,109

The State's total long-term debt increased by \$249.1 million or 4.99% during the current fiscal year. The key factor in this increase was the issuance of \$450 million in general obligation bonds for financing public improvement projects.

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

The State Constitution limits the amount of general obligation bonds which 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, 2004 was \$111.7 million.

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

Economic Factors and Next Year's Budget

Unemployment is at record low levels with the statewide seasonally adjusted unemployment rate being below 3.5% for the past seven months. One year ago, Hawaii's seasonally adjusted unemployment rate stood at 4.4%, while the seasonally adjusted national unemployment rate was 5.9%.

Cumulative tax collections for the first five months of fiscal 2005 exceeded \$1.8 billion, or \$239.4 million more than the corresponding period last year. General excise and use tax collections, which is the largest source of revenue and a good measure of economic growth, increased 15.3% in the same period.

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2004

The Council on Revenues in September 2004 estimated that the General Fund tax growth rate would be 8.8% in fiscal 2005 and 5.3% in fiscal 2006. While the current condition of Hawaii's economy is good, the projected growth in tax revenues remains a concern. Based on this concern and increasing fixed costs, the Governor has imposed a 1% across-the-board restriction on all General Fund discretionary expenditures of all Executive Branch departments and agencies for fiscal 2005. Consultant and personal services contracts greater than \$25,000 and the filling of nonessential positions continue to require the approval of the Governor and other expenditure controls implemented in fiscal 2004 continue to be in force.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

Statement of Net Assets

June 30, 2004

(Amounts in thousands)

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Cash and short-term investments (note 3)	\$ 610,076	\$ 1,072,583	\$ 1,682,659	\$ 338,740
Receivables:				
Taxes	311,300	34,000	345,300	—
Accounts and accrued interest, net	—	24,342	24,342	128,060
Notes, loans, and mortgages, net	246,872	—	246,872	101,310
Federal government	45,200	3,139	48,339	3,678
Other, net (note 12)	26,813	875	27,688	3,503
Internal balances (note 8)	1,262	(1,262)	—	—
Due from Component Units (note 8)	20,000	—	20,000	—
Due from Primary Government (note 8)	—	—	—	5,121
Investments (note 3)	882,407	—	882,407	583,060
Inventories:				
Developments in progress and dwelling units	—	—	—	20,583
Materials and supplies	—	236	236	36,210
Net investment in financing lease	—	—	—	17,301
Restricted assets (notes 3, 6, and 10)	—	364,444	364,444	531,100
Other assets:				
Prepaid expenses	—	24	24	20,945
Bond issue costs	12,600	8,147	20,747	4,167
Promissory note receivable	—	6,024	6,024	—
Other	1	—	1	105
Capital assets (notes 4, 5, 6, and 10):				
Land and land improvements	2,338,636	551,413	2,890,049	63,417
Infrastructure	7,603,818	—	7,603,818	29,515
Construction in progress	796,235	86,479	882,714	237,562
Buildings, improvements, and equipment	2,907,837	2,679,601	5,587,438	2,165,086
Accumulated depreciation	(4,695,486)	(1,282,832)	(5,978,318)	(1,111,865)
Total Capital Assets, Net	8,951,040	2,034,661	10,985,701	1,383,715
Total Assets	\$ 11,107,571	\$ 3,547,213	\$ 14,654,784	\$ 3,177,598

See accompanying notes to basic financial statements.

<u>LIABILITIES</u>	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
Vouchers and contracts payable	\$ 125,600	\$ 63,625	\$ 189,225	\$ 87,345
Other accrued liabilities	81,099	47,193	128,292	99,089
Prepaid airport use charge fund (note 10)	—	4,469	4,469	—
Due to Component Units (note 8)	5,121	—	5,121	—
Due to Primary Government (note 8)	—	—	—	20,000
Due to federal government	—	—	—	263
Deferred revenue	—	5,361	5,361	22,821
Estimated future costs of land sold	—	—	—	16,431
Other	112,700	953	113,653	16,748
Long-term liabilities:				
Due within one year:				
Payable from restricted assets:				
Contracts payable, accrued interest, and other	—	33,656	33,656	—
Matured bonds and interest payable	67,198	10	67,208	—
Revenue bonds payable, net (notes 6 and 7)	—	26,629	26,629	—
General obligation bonds payable (notes 5 and 7)	—	20	20	—
General obligation bonds payable (notes 5 and 7)	136,445	9	136,454	2,858
Notes, mortgages, and installment contracts payable	—	—	—	1,857
Accrued vacation and retirement benefits payable (note 7)	48,085	2,953	51,038	18,132
Revenue bonds payable, net (notes 6 and 7)	12,585	—	12,585	12,695
Reserve for losses and loss adjustment costs (notes 7 and 13)	73,000	871	73,871	26,525
Claims and judgments payable (notes 7 and 12)	30,000	—	30,000	—
Capital lease obligations (notes 7 and 10)	3,145	—	3,145	8,339
Deferred commitment fees	—	—	—	600
Due in more than one year:				
General obligation bonds payable (notes 5 and 7)	3,817,747	167	3,817,914	9,127
Notes, mortgages, and installment contracts payable	—	—	—	22,661
Accrued vacation and retirement benefits payable (note 7)	110,670	6,130	116,800	50,049
Revenue bonds payable, net (notes 6 and 7)	264,095	979,497	1,243,592	719,641
Reserve for losses and loss adjustment costs (notes 7 and 13)	30,500	3,229	33,729	8,874
Claims and judgments payable (notes 7 and 12)	206,600	—	206,600	—
Capital lease obligations (notes 7 and 10)	61,340	—	61,340	40,852
Deferred commitment fees	—	—	—	2,542
Total Liabilities	<u>5,185,930</u>	<u>1,174,772</u>	<u>6,360,702</u>	<u>1,187,449</u>
 <u>NET ASSETS</u>				
Invested in capital assets, net of related debt	4,654,693	1,129,619	5,784,312	1,094,304
Restricted for:				
Capital maintenance projects	215,305	—	215,305	—
Health and welfare	327,934	—	327,934	—
Other purposes	519,346	—	519,346	—
Bond requirements and other	—	169,816	169,816	728,462
Unrestricted	204,363	1,073,006	1,277,369	167,383
Total Net Assets	<u>\$ 5,921,641</u>	<u>\$ 2,372,441</u>	<u>\$ 8,294,082</u>	<u>\$ 1,990,149</u>

STATE OF HAWAII

Statement of Activities

For the Fiscal Year Ended June 30, 2004
(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			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 427,820	\$ 116,645	\$ 107,236	\$ —	\$ (203,939)	\$ —	\$ (203,939)	
Public safety	239,932	35,740	29,905	—	(174,287)	—	(174,287)	
Highways	413,215	6,328	29,112	40,001	(337,774)	—	(337,774)	
Conservation of natural resources	69,693	26,339	35,888	—	(7,466)	—	(7,466)	
Health	520,433	31,655	171,620	—	(317,158)	—	(317,158)	
Welfare	1,547,732	3,675	981,676	—	(562,381)	—	(562,381)	
Lower education	1,795,482	30,468	233,018	—	(1,531,996)	—	(1,531,996)	
Higher education	480,296	—	—	—	(480,296)	—	(480,296)	
Other education	23,092	—	520	—	(22,572)	—	(22,572)	
Culture and recreation	64,052	7,184	2,108	—	(54,760)	—	(54,760)	
Urban redevelopment and housing	59,394	1	14,980	—	(44,413)	—	(44,413)	
Economic development and assistance	214,206	25,424	81,860	—	(106,922)	—	(106,922)	
Interest expense	179,357	—	—	—	(179,357)	—	(179,357)	
Total Governmental Activities	6,034,704	283,459	1,687,923	40,001	(4,023,321)	—	(4,023,321)	
Business-Type Activities:								
Airports	273,546	214,878	—	23,516	—	(35,152)	(35,152)	
Harbors	54,432	74,768	—	737	—	21,073	21,073	
Unemployment compensation	176,135	190,580	—	—	—	14,445	14,445	
Nonmajor proprietary fund	2,496	2,768	—	—	—	272	272	
Total Business-Type Activities	506,609	482,994	—	24,253	—	638	638	
Total Primary Government	\$ 6,541,313	\$ 766,453	\$ 1,687,923	\$ 64,254	(4,023,321)	638	(4,022,683)	
Component Units:								
University of Hawaii	\$ 954,382	\$ 205,755	\$ 326,087	\$ 9,053				\$ (413,487)
Housing and Community Development Corporation of Hawaii	196,190	69,759	54,918	14,573				(56,940)
Hawaii Health Systems Corporation	329,663	288,239	2,329	5,426				(33,669)
Hawaii Hurricane Relief Fund	239	—	—	—				(239)
Total Component Units	\$ 1,480,474	\$ 563,753	\$ 383,334	\$ 29,052				(504,335)
General Revenues:								
Taxes:								
General excise tax					1,899,777	—	1,899,777	—
Net income tax – corporations and individuals					1,247,141	—	1,247,141	—
Public service companies tax					99,505	—	99,505	—
Transient accommodations tax					101,580	—	101,580	—
Tobacco and liquor taxes					120,637	—	120,637	—
Liquid fuel tax					81,401	—	81,401	—
Tax on premiums of insurance companies					79,477	—	79,477	—
Vehicle weight and registration tax					46,567	—	46,567	—
Rental motor/tour vehicle surcharge tax					41,414	—	41,414	—
Others					28,384	—	28,384	—
Interest and investment income					41,903	24,759	66,662	30,254
Payments from the State					—	—	—	432,636
Other					(6,180)	(3,478)	(9,658)	(1,911)
Total General Revenues					3,781,606	21,281	3,802,887	460,979
Change in Net Assets					(241,715)	21,919	(219,796)	(43,356)
Net Assets – Beginning, as previously reported					6,163,356	2,337,050	8,500,406	2,038,060
Adjustments (note 1)					—	13,472	13,472	(4,555)
Net Assets – Beginning, as restated					6,163,356	2,350,522	8,513,878	2,033,505
Net Assets – Ending					\$ 5,921,641	\$ 2,372,441	\$ 8,294,082	\$ 1,990,149

See accompanying notes to basic financial statements.

STATE OF HAWAII

**Governmental Funds
Balance Sheet**

June 30, 2004

(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)	\$ 310,117	\$ 67,965	\$ 231,994	\$ 610,076
Receivables:				
Taxes	304,900	—	6,400	311,300
Notes and loans, net	423	—	246,449	246,872
Federal government	—	—	45,200	45,200
Other	71	154	8,388	8,613
Due from other funds (note 8)	135,100	—	73	135,173
Due from Proprietary Funds (note 8)	—	1,262	—	1,262
Due from Component Units (note 8)	20,000	—	—	20,000
Investments (note 3)	16,585	100,000	765,822	882,407
Other assets	—	—	1	1
Total Assets	<u>\$ 787,196</u>	<u>\$ 169,381</u>	<u>\$ 1,304,327</u>	<u>\$ 2,260,904</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Vouchers and contracts payable	\$ 99,545	\$ 5,505	\$ 20,550	\$ 125,600
Other accrued liabilities	55,860	—	7,239	63,099
Due to other funds (note 8)	73	89,900	45,200	135,173
Due to Component Units (note 8)	5,121	—	—	5,121
Payable from restricted assets – matured bonds and interest payable	—	—	998	998
Deferred revenue	7,500	—	—	7,500
Total Liabilities	<u>168,099</u>	<u>95,405</u>	<u>73,987</u>	<u>337,491</u>
Fund Balances:				
Reserved for:				
Continuing appropriations	217,322	692,405	361,209	1,270,936
Receivables and advances	435	—	246,449	246,884
Federal aid highway projects encumbrances	—	179,501	—	179,501
Bond redemption and other	—	—	33,402	33,402
Unreserved for major funds:				
Designated for future expenditures	19,600	—	—	19,600
Undesignated	381,740	(797,930)	—	(416,190)
Unreserved for nonmajor Special Revenue Funds:				
Designated for future expenditures	—	—	226,460	226,460
Undesignated	—	—	362,820	362,820
Total Fund Balances	<u>619,097</u>	<u>73,976</u>	<u>1,230,340</u>	<u>1,923,413</u>
Total Liabilities and Fund Balances	<u>\$ 787,196</u>	<u>\$ 169,381</u>	<u>\$ 1,304,327</u>	<u>\$ 2,260,904</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, 2004

(Amounts in thousands)

Total Fund Balance – Governmental Funds	\$	1,923,413
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	\$	2,338,636
Infrastructure		7,603,818
Construction in progress		796,235
Buildings, improvements, and equipment		2,907,837
Accumulated depreciation		<u>(4,695,486)</u>
		8,951,040
Accrued interest and other payables are not recognized in governmental funds.		(196,900)
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.		38,300
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	(3,954,192)	
Accrued vacation payable	(158,755)	
Revenue bonds payable	(276,680)	
Reserve for losses and loss adjustment costs	(103,500)	
Claims and judgments payable	(236,600)	
Capital lease obligations	<u>(64,485)</u>	
		<u>(4,794,212)</u>
Net Assets of Governmental Activities	\$	<u><u>5,921,641</u></u>

See accompanying notes to basic financial statements.

STATE OF HAWAII

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)

For the Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
General excise tax	\$ 1,893,916	\$ —	\$ 6,161	\$ 1,900,077
Net income tax – corporations and individuals	1,254,341	—	—	1,254,341
Public service companies tax	99,505	—	—	99,505
Transient accommodations tax	6,028	—	95,552	101,580
Tobacco and liquor taxes	119,633	—	1,004	120,637
Liquid fuel tax	—	—	81,401	81,401
Tax on premiums of insurance companies	78,142	—	1,335	79,477
Vehicle weight and registration tax	—	—	46,567	46,567
Rental motor/tour vehicle surcharge tax	—	—	41,414	41,414
Others	19,148	—	9,236	28,384
Total Taxes	3,470,713	—	282,670	3,753,383
Interest and investment income	15,743	—	26,160	41,903
Charges for current services	69,973	—	159,169	229,142
Intergovernmental	99,320	—	1,428,960	1,528,280
Rentals	6,556	—	24,337	30,893
Fines, forfeitures, and penalties	20,053	—	10,400	30,453
Licenses and fees	1,246	—	24,397	25,643
Revenues from private sources	3,230	—	39,034	42,264
Other	22,474	—	85,813	108,287
Total Revenues	3,709,308	—	2,080,940	5,790,248
Expenditures:				
Current:				
General government	315,781	94,354	40,840	450,975
Public safety	187,401	6,292	71,739	265,432
Highways	—	91,776	130,896	222,672
Conservation of natural resources	27,151	3,999	33,624	64,774
Health	368,315	2,339	148,013	518,667
Welfare	565,325	357	979,640	1,545,322
Lower education	1,363,937	128,790	265,697	1,758,424
Higher education	459,640	20,656	—	480,296
Other education	3,908	8,435	10,464	22,807
Culture and recreation	34,386	7,007	25,491	66,884
Urban redevelopment and housing	8,333	30,599	16,145	55,077
Economic development and assistance	29,332	15,959	169,842	215,133
Other	—	—	4,195	4,195
Debt service	—	—	301,515	301,515
Total Expenditures	3,363,509	410,563	2,198,101	5,972,173
Excess (Deficiency) of Revenues over Expenditures	345,799	(410,563)	(117,161)	(181,925)
Other Financing Sources (Uses):				
Proceeds from general obligation and refunding general obligation bonds – par (notes 5 and 7)	—	450,000	212,380	662,380
Proceeds from general obligation and refunding general obligation bonds – premium (notes 5 and 7)	14,922	—	12,707	27,629
Payments to refunded bond escrow agent (notes 5, 6, and 7)	—	—	(215,510)	(215,510)
Transfers in (note 9)	15,355	71,419	265,048	351,822
Transfers out (note 9)	(259,843)	(5,205)	(86,774)	(351,822)
Other	36	1	(15,794)	(15,757)
Total Other Financing Sources (Uses)	(229,530)	516,215	172,057	458,742
Net Change in Fund Balances	116,269	105,652	54,896	276,817
Fund Balances (Deficit) – Beginning	502,828	(31,676)	1,175,444	1,646,596
Fund Balances – Ending	\$ 619,097	\$ 73,976	\$ 1,230,340	\$ 1,923,413

See accompanying notes to basic financial statements.

STATE OF HAWAII

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances (Deficit) to the Statement of Activities**

For the Fiscal Year Ended June 30, 2004

(Amounts in thousands)

Total Net Change in Fund Balances (Deficit) – Governmental Funds	\$	276,817
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	\$	365,003
Depreciation expense (note 4)		<u>(546,414)</u>
Excess of capital outlay over depreciation expense		(181,411)
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.		
		(690,009)
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	381,654	
Capital lease payments	3,020	
Claims and judgment payments	<u>30,000</u>	
Total long-term debt repayment		414,674
Revenue timing differences result in greater revenue in the government-wide financial statements.		
		10,700
Accrued interest and other payables are not recognized in governmental funds.		
		(53,300)
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 judgements payable	(14,900)	
Change in accrued vacation payable	(2,886)	
Change in reserve for losses and loss adjustment costs	<u>(1,400)</u>	
		<u>(19,186)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>(241,715)</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, 2004

(Amounts in thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance – Favorable (Unfavorable)</u>
Revenues:				
Taxes:				
General excise tax	\$ 1,811,185	\$ 1,854,175	\$ 1,894,216	\$ 40,041
Net income tax:				
Corporations	67,675	24,390	56,653	32,263
Individuals	1,197,802	1,134,425	1,168,688	34,263
Inheritance and estate tax	9,221	10,490	9,830	(660)
Liquor permits and tax	42,375	42,477	41,250	(1,227)
Public service companies tax	115,796	126,884	99,505	(27,379)
Tobacco tax	98,501	88,320	78,383	(9,937)
Tax on premiums of insurance companies	67,700	73,000	78,142	5,142
Franchise tax (banks and other financial institutions)	11,496	—	(533)	(533)
Transient accommodations tax	8,400	8,400	5,628	(2,772)
Other taxes, primarily conveyances tax	5,760	9,570	9,851	281
Total Taxes	<u>3,435,911</u>	<u>3,372,131</u>	<u>3,441,613</u>	<u>69,482</u>
Non-taxes:				
Interest and investment income	26,386	18,567	16,004	(2,563)
Charges for current services	132,300	131,685	148,355	16,670
Intergovernmental	3,232	53,172	58,777	5,605
Rentals	6,885	7,809	6,556	(1,253)
Fines, forfeitures, and penalties	19,299	18,821	20,053	1,232
Licenses and fees	955	953	1,246	293
Revenues from private sources	1,301	1,498	3,230	1,732
Debt service requirements	45,983	50,116	42,562	(7,554)
Other	101,014	121,770	121,960	190
Total Non-taxes	<u>337,355</u>	<u>404,391</u>	<u>418,743</u>	<u>14,352</u>
Total Revenues	<u>3,773,266</u>	<u>3,776,522</u>	<u>3,860,356</u>	<u>83,834</u>
Expenditures:				
General government	591,204	595,483	577,860	17,623
Public safety	171,175	178,521	176,829	1,692
Conservation of natural resources	29,819	25,509	24,511	998
Health	346,124	346,092	340,655	5,437
Hospitals	31,220	35,058	35,058	—
Welfare	572,936	569,784	566,592	3,192
Lower education	1,412,441	1,443,894	1,430,249	13,645
Higher education	458,177	459,880	459,880	—
Other education	4,909	3,865	3,857	8
Culture and recreation	33,125	35,501	34,860	641
Urban redevelopment and housing	1,297	1,297	1,153	144
Economic development and assistance	28,642	27,680	26,839	841
Housing	7,142	7,142	6,945	197
Social security and pension contributions	137,883	138,541	138,541	—
Other	—	8,700	2,509	6,191
Total Expenditures	<u>3,826,094</u>	<u>3,876,947</u>	<u>3,826,338</u>	<u>50,609</u>
Excess (Deficiency) of Revenues over Expenditures	(52,828)	(100,425)	34,018	33,225
Other Financing Sources:				
Transfers	17,932	47,066	47,389	323
Excess (Deficiency) of Revenues and Other Sources over Expenditures	<u>\$ (34,896)</u>	<u>\$ (53,359)</u>	<u>\$ 81,407</u>	<u>\$ 33,548</u>

See accompanying notes to basic financial statements.

STATE OF HAWAII

**Proprietary Funds
Statement of Net Assets**

June 30, 2004

(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)	\$ 592,631	\$ 76,193	\$ 358,035	\$ 45,724	\$ 1,072,583
Receivables:					
Taxes	—	—	34,000	—	34,000
Accounts and accrued interest (net of allowance for doubtful accounts of \$16,757)	12,782	11,560	—	—	24,342
Federal government	2,099	1,040	—	—	3,139
Other	575	300	—	—	875
Inventory of materials and supplies	191	45	—	—	236
Prepaid expenses and other assets	—	24	—	—	24
Total Current Assets	<u>608,278</u>	<u>89,162</u>	<u>392,035</u>	<u>45,724</u>	<u>1,135,199</u>
Restricted Assets (notes 3 and 6):					
Cash and short-term investments	152,340	86,557	—	—	238,897
Investments – repurchase agreements	85,284	—	—	—	85,284
Net direct financing leases (note 10)	40,263	—	—	—	40,263
Total Restricted Assets	<u>277,887</u>	<u>86,557</u>	<u>—</u>	<u>—</u>	<u>364,444</u>
Noncurrent Assets:					
Capital assets (notes 4 and 6):					
Land and land improvements	312,718	238,695	—	—	551,413
Construction in progress	59,613	26,866	—	—	86,479
Buildings and improvements	2,027,954	468,812	—	—	2,496,766
Equipment	172,066	10,769	—	—	182,835
Less accumulated depreciation	<u>(1,125,135)</u>	<u>(157,697)</u>	<u>—</u>	<u>—</u>	<u>(1,282,832)</u>
Net Capital Assets	1,447,216	587,445	—	—	2,034,661
Bond issue costs	5,534	2,613	—	—	8,147
Promissory note receivable	6,024	—	—	—	6,024
Total Noncurrent Assets	<u>1,458,774</u>	<u>590,058</u>	<u>—</u>	<u>—</u>	<u>2,048,832</u>
Total Assets	<u>\$ 2,344,939</u>	<u>\$ 765,777</u>	<u>\$ 392,035</u>	<u>\$ 45,724</u>	<u>\$ 3,548,475</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	\$ 14,824	\$ 2,445	\$ 44,600	\$ 1,756	\$ 63,625
Other accrued liabilities	3,497	—	—	43,696	47,193
Due to Capital Projects Fund (note 8)	—	1,262	—	—	1,262
Prepaid airport use charge fund	4,469	—	—	—	4,469
Deferred revenue	5,361	—	—	—	5,361
General obligation bonds payable, current portion (notes 5 and 7)	9	—	—	—	9
Accrued vacation, current portion (note 7)	2,428	525	—	—	2,953
Reserve for losses and loss adjustment costs (note 7)	871	—	—	—	871
Total Current Liabilities	<u>31,459</u>	<u>4,232</u>	<u>44,600</u>	<u>45,452</u>	<u>125,743</u>
Liabilities Payable from Restricted Assets:					
Contracts payable, accrued interest, and other	25,097	8,559	—	—	33,656
Matured bonds and interest payable	—	10	—	—	10
Revenue bonds payable (notes 6 and 7)	11,770	14,859	—	—	26,629
General obligation bonds payable (notes 5 and 7)	—	20	—	—	20
Total Liabilities Payable from Restricted Assets	<u>36,867</u>	<u>23,448</u>	<u>—</u>	<u>—</u>	<u>60,315</u>
Noncurrent Liabilities:					
General obligation bonds payable (notes 5 and 7)	56	111	—	—	167
Accrued vacation (note 7)	4,785	1,345	—	—	6,130
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding) (notes 6 and 7)	801,978	177,519	—	—	979,497
Reserve for losses and loss adjustment costs (note 7)	3,229	—	—	—	3,229
Other	953	—	—	—	953
Total Long-Term Liabilities	<u>811,001</u>	<u>178,975</u>	<u>—</u>	<u>—</u>	<u>989,976</u>
Total Liabilities	<u>879,327</u>	<u>206,655</u>	<u>44,600</u>	<u>45,452</u>	<u>1,176,034</u>
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	732,070	397,549	—	—	1,129,619
Restricted for bond requirements and other	158,918	10,898	—	—	169,816
Unrestricted	574,624	150,675	347,435	272	1,073,006
Total Net Assets	<u>\$ 1,465,612</u>	<u>\$ 559,122</u>	<u>\$ 347,435</u>	<u>\$ 272</u>	<u>\$ 2,372,441</u>

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2004

(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	\$ 114,739	\$ —	\$ —	\$ —	\$ 114,739
Unemployment compensation tax	—	—	190,580	—	190,580
Airport use charges	33,517	—	—	—	33,517
Rentals	64,055	25,125	—	—	89,180
Services and others	(4,683)	48,658	—	—	43,975
Other	4,318	985	—	2,768	8,071
Total Operating Revenues	<u>211,946</u>	<u>74,768</u>	<u>190,580</u>	<u>2,768</u>	<u>480,062</u>
Operating Expenses:					
Personal services	88,448	10,757	—	1,266	100,471
Depreciation (note 4)	79,033	13,766	—	—	92,799
Repairs and maintenance	19,989	2,915	—	—	22,904
Airports operations	25,681	—	—	—	25,681
Harbors operations	—	9,277	—	—	9,277
Fireboat operations	—	1,705	—	—	1,705
General administration	15,427	4,921	—	—	20,348
Unemployment compensation	—	—	176,135	—	176,135
Other	265	—	—	1,230	1,495
Total Operating Expenses	<u>228,843</u>	<u>43,341</u>	<u>176,135</u>	<u>2,496</u>	<u>450,815</u>
Operating Income (Loss)	<u>(16,897)</u>	<u>31,427</u>	<u>14,445</u>	<u>272</u>	<u>29,247</u>
Nonoperating Revenues (Expenses):					
Interest income	20,858	3,901	—	—	24,759
Interest expense	(43,217)	(11,091)	—	—	(54,308)
Federal grants	1,480	—	—	—	1,480
Aviation fuel tax	2,932	—	—	—	2,932
Loss on disposal of capital assets	(3,466)	(12)	—	—	(3,478)
Other	(1,486)	—	—	—	(1,486)
Total Nonoperating Expenses	<u>(22,899)</u>	<u>(7,202)</u>	<u>—</u>	<u>—</u>	<u>(30,101)</u>
Income (Loss) before Capital Contributions	<u>(39,796)</u>	<u>24,225</u>	<u>14,445</u>	<u>272</u>	<u>(854)</u>
Capital Contributions	<u>22,036</u>	<u>737</u>	<u>—</u>	<u>—</u>	<u>22,773</u>
Change in Net Assets	<u>(17,760)</u>	<u>24,962</u>	<u>14,445</u>	<u>272</u>	<u>21,919</u>
Net Assets – Beginning, as previously reported	<u>1,483,372</u>	<u>520,688</u>	<u>332,990</u>	<u>—</u>	<u>2,337,050</u>
Adjustments (note 1)	<u>—</u>	<u>13,472</u>	<u>—</u>	<u>—</u>	<u>13,472</u>
Net Assets - Beginning, as restated	<u>1,483,372</u>	<u>534,160</u>	<u>332,990</u>	<u>—</u>	<u>2,350,522</u>
Net Assets – Ending	<u>\$ 1,465,612</u>	<u>\$ 559,122</u>	<u>\$ 347,435</u>	<u>\$ 272</u>	<u>\$ 2,372,441</u>

See accompanying notes to basic financial statements.

STATE OF HAWAII
Proprietary Funds
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2004

(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	\$ 238,501	\$ 74,189	\$ —	\$ —	\$ 312,690
Cash received from taxes	—	—	202,580	—	202,580
Cash received from employees	—	—	—	20,162	20,162
Cash paid to suppliers	(109,831)	(17,761)	—	(7,373)	(134,965)
Cash paid to employees	(51,059)	(10,893)	—	—	(61,952)
Cash paid for unemployment compensation	—	—	(158,235)	—	(158,235)
Net Cash Provided by Operating Activities	<u>77,611</u>	<u>45,535</u>	<u>44,345</u>	<u>12,789</u>	<u>180,280</u>
Cash Flows Provided by Noncapital Financing Activity:					
Proceeds from federal operating grants	<u>3,005</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,005</u>
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(33,438)	(14,722)	—	—	(48,160)
Proceeds from issuance of refunding revenue bonds	81,581	53,315	—	—	134,896
Payments to refund revenue bonds	(83,036)	—	—	—	(83,036)
Repayment of general obligation bond principal	(9)	—	—	—	(9)
Repayment of revenue bond principal	(31,150)	(64,044)	—	—	(95,194)
Bond issue costs	(1,081)	(843)	—	—	(1,924)
Interest paid on bonds	(46,065)	(12,005)	—	—	(58,070)
Proceeds from transfer in from General Fund	—	—	—	—	—
Proceeds from federal, state, and capital grants	23,671	1,442	—	—	25,113
Proceeds from customer advance	953	—	—	—	953
Net Cash Used in Capital and Related Financing Activities	<u>(88,574)</u>	<u>(36,857)</u>	<u>—</u>	<u>—</u>	<u>(125,431)</u>
Cash Flows from Investing Activities:					
Purchase of investments	(85,284)	—	—	—	(85,284)
Proceeds from sales and maturities of investments	85,284	—	—	—	85,284
Interest from investments	18,128	3,660	—	—	21,788
Net Cash Provided by Investing Activities	<u>18,128</u>	<u>3,660</u>	<u>—</u>	<u>—</u>	<u>21,788</u>
Net Increase in Cash and Cash Equivalents	10,170	12,338	44,345	12,789	79,642
Cash and Cash Equivalents, Including Restricted Amounts – Beginning	<u>734,801</u>	<u>150,412</u>	<u>313,690</u>	<u>32,935</u>	<u>1,231,838</u>
Cash and Cash Equivalents, Including Restricted Amounts – Ending	<u>\$ 744,971</u>	<u>\$ 162,750</u>	<u>\$ 358,035</u>	<u>\$ 45,724</u>	<u>\$ 1,311,480</u>

STATE OF HAWAII

**Proprietary Funds
Statement of Cash Flows (Cont'd)**

For the Fiscal Year Ended June 30, 2004

(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)	\$ (16,897)	\$ 31,427	\$ 14,445	\$ 272	\$ 29,247
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Provision for uncollectible accounts	924	2,254	—	—	3,178
Depreciation	79,033	13,766	—	—	92,799
Settlement of airport use charge overpayment	5,393	—	—	—	5,393
Nonoperating items	2,932	—	—	—	2,932
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	415	—	—	—	415
Decrease (increase) in assets:					
Receivables	13,109	(2,939)	12,000	—	22,170
Inventory of materials and supplies	11	(8)	—	—	3
Increase (decrease) in liabilities:					
Vouchers and contracts payable	(11,435)	1,066	17,900	(4,877)	2,654
Other accrued liabilities	351	(31)	—	17,394	17,714
Prepaid airport use charge fund	(1,348)	—	—	—	(1,348)
Deferred revenue	5,123	—	—	—	5,123
Net Cash Provided by Operating Activities	<u>\$ 77,611</u>	<u>\$ 45,535</u>	<u>\$ 44,345</u>	<u>\$ 12,789</u>	<u>\$ 180,280</u>
Noncash Investing, Capital, and Financing Activities:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	\$ 5,934	\$ 631	\$ —	\$ —	\$ 6,565
Project costs written off	3,466	—	—	—	3,466
Contracts payable accrual for the acquisition of capital assets	6,140	—	—	—	6,140
Capitalized interest	4,468	—	—	—	4,468
Principal payments relating to special facility revenue bonds	850	16,500	—	—	17,350
Interest payments relating to special facility revenue bonds	2,935	208	—	—	3,143
Transfer of net investment in lease financing to harbor facilities	—	2,296	—	—	2,296

See accompanying notes to basic financial statements.

STATE OF HAWAII

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2004

(Amounts in thousands)

<u>ASSETS</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Cash and short-term investments (note 3)	\$ 165,255	\$ 178,334
Receivables – taxes	5	7,600
Investments (note 3):		
Liquid asset funds	—	79
U.S. government securities	—	11
Total Investments	<u>—</u>	<u>90</u>
Total Assets	<u>165,260</u>	<u>\$ 186,024</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Vouchers payable	\$ 1,415	\$ 8,297
Due to individuals, businesses, and counties	<u>—</u>	<u>177,727</u>
Total Liabilities	<u>1,415</u>	<u>\$ 186,024</u>
Net assets – held in trust	<u>\$ 163,845</u>	

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, 2004

(Amounts in thousands)

	Private Purpose Trust Fund
Additions:	
Charges for current services	\$ 274
Rentals	6,642
Interest and investment income	7,413
Hawaiian Home Lands Trust settlement	30,000
Other	601
Total Additions	<u>44,930</u>
Deductions:	
Personal services	2,148
Other	16,150
Total Deductions	<u>18,298</u>
Change in Net Assets	26,632
Net Assets – Beginning	<u>137,213</u>
Net Assets – Ending	<u>\$ 163,845</u>

See accompanying notes to basic financial statements.

STATE OF HAWAII

**Component Units
Statement of Net Assets**

June 30, 2004

(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	\$ 164,034	\$ 153,493	\$ 18,629	\$ 2,584	\$ 338,740
Receivables:					
Accounts and accrued interest (net of allowance for doubtful accounts of \$105,624)	70,299	6,483	49,538	1,740	128,060
Notes, loans, and mortgages (net of allowance for doubtful accounts of \$5,550)	24,973	76,337	—	—	101,310
Federal government	—	3,678	—	—	3,678
Other	—	3,503	—	—	3,503
Due from Primary Government (note 8)	5,121	—	—	—	5,121
Investments	387,440	7,707	—	187,913	583,060
Inventories:					
Developments in progress and dwelling units	11,823	684	8,076	—	20,583
Materials and supplies	—	36,210	—	—	36,210
Net investment in financing lease	—	17,301	—	—	17,301
Prepaid expenses and other assets	17,900	1,712	1,438	—	21,050
	<u>681,590</u>	<u>307,108</u>	<u>77,681</u>	<u>192,237</u>	<u>1,258,616</u>
Restricted assets:					
Cash and short-term investments	10,151	86,483	—	—	96,634
Investments:					
U.S. government securities	—	11,532	—	—	11,532
Guaranteed investment contracts	—	943	—	—	943
Mortgage-backed securities	—	270,420	—	—	270,420
Repurchase agreements	—	142,907	—	—	142,907
Deposits, funded reserves, and other	—	7,352	1,312	—	8,664
Total Restricted Assets	<u>10,151</u>	<u>519,637</u>	<u>1,312</u>	<u>—</u>	<u>531,100</u>
Capital assets:					
Land and land improvements	11,787	46,547	5,083	—	63,417
Infrastructure	29,515	—	—	—	29,515
Construction in progress	164,706	50,045	22,811	—	237,562
Buildings, improvements, and equipment	1,225,237	609,033	330,816	—	2,165,086
Less accumulated depreciation	(631,909)	(310,534)	(169,422)	—	(1,111,865)
Total Capital Assets, Net	<u>799,336</u>	<u>395,091</u>	<u>189,288</u>	<u>—</u>	<u>1,383,715</u>
Other assets:					
Bond issue costs	—	4,167	—	—	4,167
Total Assets	<u>\$ 1,491,077</u>	<u>\$ 1,226,003</u>	<u>\$ 268,281</u>	<u>\$ 192,237</u>	<u>\$ 3,177,598</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	\$ 35,595	\$ 8,877	\$ 42,824	\$ 49	\$ 87,345
Other accrued liabilities	52,880	23,259	21,516	1,434	99,089
Due to Primary Government (note 8)	6,000	—	14,000	—	20,000
Due to federal government	—	263	—	—	263
Deferred revenue	22,570	251	—	—	22,821
Estimated future costs of land sold	—	16,431	—	—	16,431
General obligation bonds payable (note 5)	2,858	—	—	—	2,858
Notes, mortgages, and installment contracts payable	1,190	153	514	—	1,857
Accrued vacation and retirement benefits payable	16,767	—	1,365	—	18,132
Revenue bonds payable	3,495	9,200	—	—	12,695
Reserve for losses and loss adjustment costs	4,671	—	21,854	—	26,525
Capital lease obligations	380	—	7,959	—	8,339
Deferred commitment fees	—	600	—	—	600
Other liabilities	13,109	2,178	1,461	—	16,748
Total Current Liabilities	<u>159,515</u>	<u>61,212</u>	<u>111,493</u>	<u>1,483</u>	<u>333,703</u>
Noncurrent Liabilities:					
General obligation bonds payable (note 5)	9,127	—	—	—	9,127
Notes, mortgages, and installment contracts payable	368	10,388	11,905	—	22,661
Accrued vacation and retirement benefits payable	29,187	—	20,862	—	50,049
Revenue bonds payable	163,890	555,751	—	—	719,641
Reserve for losses and loss adjustment costs	8,874	—	—	—	8,874
Capital lease obligations	15,065	—	25,787	—	40,852
Deferred commitment fees	—	2,542	—	—	2,542
Total Long-Term Liabilities	<u>226,511</u>	<u>568,681</u>	<u>58,554</u>	<u>—</u>	<u>853,746</u>
Total Liabilities	<u>386,026</u>	<u>629,893</u>	<u>170,047</u>	<u>1,483</u>	<u>1,187,449</u>
NET ASSETS					
Invested in capital assets, net of related debt	692,610	258,570	143,124	—	1,094,304
Restricted	207,848	519,665	949	—	728,462
Unrestricted (deficit)	204,593	(182,125)	(45,839)	190,754	167,383
Total Net Assets	<u>\$ 1,105,051</u>	<u>\$ 596,110</u>	<u>\$ 98,234</u>	<u>\$ 190,754</u>	<u>\$ 1,990,149</u>

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2004

(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	\$ 954,382	\$ 196,190	\$ 329,663	\$ 239	\$ 1,480,474
Program Revenues:					
Charges for current services	205,755	69,759	288,239	—	563,753
Operating grants and contributions	326,087	54,918	2,329	—	383,334
Capital grants and contributions	9,053	14,573	5,426	—	29,052
Total Program Revenues	<u>540,895</u>	<u>139,250</u>	<u>295,994</u>	<u>—</u>	<u>976,139</u>
Net Program Expenses	<u>(413,487)</u>	<u>(56,940)</u>	<u>(33,669)</u>	<u>(239)</u>	<u>(504,335)</u>
General Revenues (Expenses):					
Interest and investment income	29,035	—	118	1,101	30,254
Payments from (to) the State	433,804	(30,357)	35,051	(5,862)	432,636
Other	(942)	—	(969)	—	(1,911)
Net General Revenues (Expenses)	<u>461,897</u>	<u>(30,357)</u>	<u>34,200</u>	<u>(4,761)</u>	<u>460,979</u>
Change in Net Assets	<u>48,410</u>	<u>(87,297)</u>	<u>531</u>	<u>(5,000)</u>	<u>(43,356)</u>
Net Assets – Beginning, as previously reported	1,056,641	687,962	97,703	195,754	2,038,060
Adjustments (note 1)	<u>—</u>	<u>(4,555)</u>	<u>—</u>	<u>—</u>	<u>(4,555)</u>
Net Assets – Beginning, as restated	<u>1,056,641</u>	<u>683,407</u>	<u>97,703</u>	<u>195,754</u>	<u>2,033,505</u>
Net Assets – Ending	<u>\$ 1,105,051</u>	<u>\$ 596,110</u>	<u>\$ 98,234</u>	<u>\$ 190,754</u>	<u>\$ 1,990,149</u>

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

June 30, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The State has defined its reporting entity in accordance with GASB Statement No. 14, *The Financial Reporting Entity*. The accompanying basic financial statements present the financial activity of the State (Primary Government) and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

Primary Government

The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

Executive:

- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resources Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

Notes to Basic Financial Statements

June 30, 2004

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 11 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 nine members. The nine members consist of the following:

- Six public members appointed by the Governor (two 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.

Notes to Basic Financial Statements

June 30, 2004

Hawaii Health Systems Corporation

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

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

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

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

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities, and fund balances between the Department of Health and the HHSC pursuant to Act 262 were ongoing as of June 30, 2004. Accordingly, the assets, liabilities, and net assets of the HHSC reflected in the accompanying basic financial statements at June 30, 2004 may be significantly different from those included in the final settlement.

The HHSC is comprised of the following state hospitals:

Hale Ho’ola Hamakua fka Honokaa Hospital
Hilo Medical Center
Ka’u Hospital
Kauai Veterans Memorial Hospital
Kohala Hospital
Kona Community Hospital

Kula Hospital
Lanai Community Hospital
Leahi Hospital
Samuel Mahelona Memorial Hospital
Maluhia (A Long-Term Care Health Center)
Maui Memorial Medical Center

Notes to Basic Financial Statements

June 30, 2004

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 criteria of GASB Statement No. 14, are not accountable to the State.

Notes to Basic Financial Statements

June 30, 2004

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

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

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental Fund Financial Statements – The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax

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revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

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

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

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

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

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

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

D. Fund Accounting

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

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 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 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

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

Component Units

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

E. Cash and Short-Term Investments

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

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

F. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

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

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

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G. Investments

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

H. Inventories

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

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

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

I. Restricted Assets

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

J. Capital Assets

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

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

The State's capitalization thresholds are \$5,000 for equipment, and \$100,000 for land and land improvements, infrastructure, and buildings and improvements. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital

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assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is recognized in the statement of activities.

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

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

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are not capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

K. Compensated Absences

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

L. Long-Term Obligations

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

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

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M. Net Assets and Fund Equity

In the government-wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as creditors, grantors, and contributors), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

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

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

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

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

N. Nonexchange Transactions

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

O. Medicare and Medicaid Reimbursements

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

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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 and the first \$4 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$100 million, except for flood and earthquake which is \$25 million, and the annual aggregate for general liability losses per occurrence is \$10 million. The State also has an insurance policy to cover medical malpractice risk in the amount of \$20 million per occurrence and in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

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

Q. Deferred Compensation Plan

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

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

R. Estimates and Restatements

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

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The statement of net assets of Harbors at June 30, 2003 has been restated to reflect the correction of an overstatement of cash of \$122,697, an understatement of receivables of \$3,624,647, an understatement of accrued interest expense of \$29,599 and an overstatement of an amount due to the General Fund of \$9,999,983. Net assets at July 1, 2002 increased by \$9,999,983 as a result of the overstatement of the General Fund liability. Net assets at June 30, 2003 increased by \$3,472,351 as a result of an increase in revenues of \$3,501,950 and an increase in interest expense of \$29,599, and increased due to an overstatement of the General Fund liability of \$9,999,983.

The financial statements of HCDCH as of June 30, 2003 have been restated to reflect a correction to the liability for the estimated future costs of land sold. This liability reflects amounts charged to the cost of land sold in excess of costs incurred for a certain real estate project. Amounts charged to the cost of land sold are determined using the relative sales value method, which requires management to allocate the total estimated cost of developing a real estate project relative to the total estimated revenues of the individual parcels as of a consistent point in time. During 2003, the total estimated development costs for this project were allocated using historical sales prices for sold parcels and current estimated sales prices for unsold parcels. Due to improvements in current estimated sales prices relative to historical sales prices, this allocation basis resulted in a reduction of approximately \$4,555,000 to the estimated future cost of land sold as of June 30, 2003, as well as the related cost of land sold for the fiscal year then ended. The effect of the restatement is to increase the liability for the estimated future cost of land sold and decrease the net assets of HCDCH as of June 30, 2003.

(2) BUDGETING AND BUDGETARY CONTROL

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues, expenditures, and changes in fund balance – budget and actual (budgetary basis) – general fund are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2003 (Act 200, SLH of 2003) and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2003-2005 biennial budget.

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

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

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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, 2004, there were no expenditures in excess of appropriations in the individual funds.

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

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

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2004 follows (amounts expressed in thousands):

	<u>General Fund</u>
Excess of revenues and other sources over expenditures and other uses – actual (budgetary basis)	\$ 81,407
Reserve for encumbrances at fiscal year-end*	165,550
Expenditures for liquidation of prior fiscal year encumbrances	(167,127)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	(36)
Tax refunds payable	2,500
Accrued liabilities	(3,716)
Accrued revenues	37,691
Net change in fund balance – GAAP basis	<u>\$ 116,269</u>

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

Notes to Basic Financial Statements

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(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.

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. 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 carrying amount of the State's deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2004 was \$1,682,659 for the Primary Government and \$343,589,000 for the Fiduciary Funds.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits amounted to \$1,621,926,582 at June 30, 2004. The portion of such 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 totaled \$1,244,667,112. The remaining bank balances of \$377,259,470 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.

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B. Investments

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

The following tables present the State's investments at June 30, 2004 (amounts expressed in thousands), and provide information about the custodial credit risks associated with the State's investments. The three categories of custodial credit risk are:

- Category 1: Investments which are insured or registered, or securities held by the State or its agent in the State's name.
- Category 2: Investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
- Category 3: Investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

	Fair Value	Category		
		1	2	3
Investments – Primary				
Government:				
Certificates of deposit	\$ 10,000	\$ 10,000	\$ —	\$ —
U.S. government securities	672,531	672,531	—	—
Repurchase agreements	280,160	280,160	—	—
Miscellaneous	5,000	5,000	—	—
	<u>967,691</u>	<u>967,691</u>	<u>—</u>	<u>—</u>
Less:				
Restricted assets investments	(85,284)	(85,284)	—	—
	<u>\$ 882,407</u>	<u>\$ 882,407</u>	<u>\$ —</u>	<u>\$ —</u>
Investments – Fiduciary Funds:				
U.S. government securities	\$ 11	\$ 11	\$ —	\$ —
Miscellaneous	79	79	—	—
	<u>\$ 90</u>	<u>\$ 90</u>	<u>\$ —</u>	<u>\$ —</u>

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(4) CAPITAL ASSETS

For the fiscal year ended June 30, 2004, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities			
	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets not being depreciated:				
Land and land improvements	\$ 2,326,843	\$ 11,805	\$ (12)	\$ 2,338,636
Construction in progress	784,391	352,613	(340,769)	796,235
Total capital assets not being depreciated	<u>3,111,234</u>	<u>364,418</u>	<u>(340,781)</u>	<u>3,134,871</u>
Capital assets being depreciated:				
Infrastructure	7,522,895	80,923	—	7,603,818
Buildings and improvements	2,440,490	245,762	—	2,686,252
Equipment	215,334	14,669	(8,418)	221,585
Total capital assets being depreciated	<u>10,178,719</u>	<u>341,354</u>	<u>(8,418)</u>	<u>10,511,655</u>
Less accumulated depreciation:				
Infrastructure	(2,851,087)	(283,843)	—	(3,134,930)
Buildings and improvements	(1,139,491)	(246,430)	—	(1,385,921)
Equipment	(166,233)	(16,141)	7,739	(174,635)
Total accumulated depreciation	<u>(4,156,811)</u>	<u>(546,414)</u>	<u>7,739</u>	<u>(4,695,486)</u>
Total capital assets	<u>\$ 9,133,142</u>	<u>\$ 159,358</u>	<u>\$ (341,460)</u>	<u>\$ 8,951,040</u>

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	Business-Type Activities			
	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets not being depreciated:				
Land and land improvements	\$ 539,836	\$ 11,577	\$ —	\$ 551,413
Construction in progress	142,476	55,882	(111,879)	86,479
Total capital assets not being depreciated	<u>682,312</u>	<u>67,459</u>	<u>(111,879)</u>	<u>637,892</u>
Capital assets being depreciated:				
Buildings and improvements	2,399,820	96,946	—	2,496,766
Equipment	189,119	5,146	(11,430)	182,835
Total capital assets being depreciated	<u>2,588,939</u>	<u>102,092</u>	<u>(11,430)</u>	<u>2,679,601</u>
Less accumulated depreciation:				
Buildings and improvements	(1,041,024)	(82,325)	—	(1,123,349)
Equipment	(160,354)	(10,474)	11,345	(159,483)
Total accumulated depreciation	<u>(1,201,378)</u>	<u>(92,799)</u>	<u>11,345</u>	<u>(1,282,832)</u>
Total capital assets	<u>\$ 2,069,873</u>	<u>\$ 76,752</u>	<u>\$ (111,964)</u>	<u>\$ 2,034,661</u>

Depreciation expense for the fiscal year ended June 30, 2004 was charged to functions/programs of the Primary Government as follows:

Governmental Activities:	
General government	\$ 17,186
Public safety	7,773
Highways	273,586
Conservation of natural resources	6,539
Health	4,199
Welfare	1,338
Lower education	207,204
Culture and recreation	956
Urban redevelopment and housing	<u>27,633</u>
Total depreciation expense – governmental activities	<u>\$ 546,414</u>
Business-Type Activities:	
Airports	\$ 79,033
Harbors	<u>13,766</u>
Total depreciation expense – business-type activities	<u>\$ 92,799</u>

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(5) GENERAL OBLIGATION BONDS PAYABLE

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

All issues except Series BL, issued December 6, 1988; certain maturities of Series BQ, issued November 28, 1989; Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA and CB, issued January 1, 1993; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; Series CS, issued April 1, 1998; and Series DC, issued September 16, 2003, contain call provisions (call prices range from \$100 to \$103). Stated interest rates range from 2.65% to 6.25%.

In fiscal 2004, the State issued \$225,000,000 of general obligation bonds, Series DA, dated September 16, 2003, with interest rates ranging from 2.80% to 5.25%. Bonds maturing on and after September 1, 2014 are subject to redemption at the option of the State at any time on and after September 1, 2013 at 100% of the principal amount to be redeemed plus accrued interest to the redemption date. The bonds were issued for the purpose of financing public improvement projects.

On September 16, 2003, the State issued \$188,650,000 and \$23,730,000 of General Obligation Refunding Bonds of 2003, Series DB and DC, with an average interest rate of 4.62% and an interest rate of 3.00%, respectively, to advance refund \$215,510,000 of certain outstanding general obligation bonds previously issued. The net proceeds of \$225,087,261 (after payment of \$1,222,218 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the government-wide financial statements.

As a result of the advance refunding, the State reduced its total debt service payments over the next 19 years by \$3,397,530 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$6,728,040.

The Series DB bonds maturing on and after September 14, 2014 are subject to redemption at the option of the State at any time on and after September 1, 2013 at 100% of the principal amount to be redeemed plus accrued interest to the redemption date. The Series DC bonds, however, are not subject to redemption prior to maturity.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

In fiscal 2004, the State issued \$225,000,000 of general obligation bonds, Series DD, dated May 13, 2004, with interest rates ranging from 3.00% to 5.25%. Bonds maturing after May 1, 2014 will be subject to redemption at the option of the State at any time on and after May 1, 2014 at 100% of the principal amount to be redeemed plus accrued interest to the redemption date. The bonds were issued for the purpose of financing public improvement projects.

At June 30, 2004, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable		\$	2,913,250
Noncallable			<u>1,053,123</u>
Total general obligation bonds outstanding			3,966,373
Less amount recorded as a liability of:			
Proprietary Funds (business-type activities), including			
\$20 payable from restricted assets	\$	196	
Component Unit – UH		<u>11,985</u>	
			<u>12,181</u>
Amount recorded in the governmental			
activities of the Primary Government	\$		<u><u>3,954,192</u></u>

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

A summary of general obligation bonds outstanding by series as of June 30, 2004 follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Amount Outstanding
X	August 1, 1972	4.000%	August 1, 2004 – 2007	\$ 1,170
BL	December 6, 1988	7.681%	December 1, 2005 – 2008	16,250
BQ	November 28, 1989	7.100% – 7.150%	December 1, 2005 – 2009	22,223
BW	March 1, 1992	6.250% – 6.400%	March 1, 2006 – 2012	38,885
BZ	October 1, 1992	5.800% – 6.000%	October 1, 2005 – 2012	100,000
CA	January 1, 1993	5.500% – 8.000%	January 1, 2006 – 2013	40,000
CB	January 1, 1993	5.500% – 5.750%	January 1, 2005 – 2008	33,180
CC	February 1, 1993	5.125%	February 1, 2007 – 2009	71,745
CG	July 1, 1993	4.900% – 5.000%	July 1, 2005 – 2006	2,880
CH	November 1, 1993	4.750% – 6.000%	November 1, 2005 – 2013	124,990
CI	November 1, 1993	4.400% – 4.900%	November 1, 2004 – 2010	147,875
CK	September 1, 1995	5.000%	September 1, 2005 – 2006	11,110
CL	March 1, 1996	5.100% – 6.000%	March 1, 2006 – 2011, 2013 – 2015	49,995
CM	December 1, 1996	6.000% – 6.500%	December 1, 2005 – 2016	99,990
CN	March 1, 1997	5.250% – 6.250%	March 1, 2005 – 2015, 2017	276,245
CO	March 1, 1997	6.000%	September 1, 2004 – 2010, March 1, 2005 – 2011	153,690
CP	October 1, 1997	5.000% – 5.500%	October 1, 2005 – 2017	161,695
CQ	October 1, 1997	5.000%	October 1, 2004	12,975
CR	April 1, 1998	4.750% – 5.750%	April 1, 2005 – 2018	274,895
CS	April 1, 1998	5.000% – 5.250%	April 1, 2005 – 2009	252,310
CT	September 15, 1999	5.250% – 5.750%	September 1, 2005 – 2012	118,715
CU	October 15, 2000	4.600% – 5.750%	October 1, 2005 – 2013	56,980
CV	August 1, 2001	4.800% – 5.500%	August 1, 2005 – 2021	300,000
CW	August 1, 2001	3.400% – 5.500%	August 1, 2005 – 2015	156,750
CX	February 15, 2002	3.600% – 5.500%	February 1, 2007 – 2022	250,000
CY	February 15, 2002	3.600% – 5.750%	February 1, 2007 – 2015	319,290
CZ	November 26, 2002	2.650% – 5.500%	July 1, 2007 – 2022	210,155
DA	September 16, 2003	2.800% – 5.250%	September 1, 2008 – 2023	225,000
DB	September 16, 2003	2.800% – 5.250%	September 1, 2008 – 2016	188,650
DC	September 16, 2003	3.000%	September 1, 2005	23,730
DD	May 13, 2004	3.000% – 5.250%	May 1, 2009 – 2024	225,000
				\$ 3,966,373

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

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

	Principal	Interest	Total
Fiscal year:			
2005	\$ 136,445	\$ 204,130	\$ 340,575
2006	267,904	214,411	482,315
2007	315,829	203,417	519,246
2008	331,875	189,564	521,439
2009	371,699	174,357	546,056
2010 – 2014	1,387,185	507,638	1,894,823
2015 – 2019	828,445	184,346	1,012,791
2020 – 2024	326,991	40,747	367,738
	\$ 3,966,373	\$ 1,718,610	\$ 5,684,983

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State’s basic financial statements. At June 30, 2004, \$728,835,000 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, 2004 was \$111,719,000.

At June 30, 2004, general obligation bonds authorized but unissued was approximately \$551,394,860.

(6) REVENUE BONDS PAYABLE

A. Governmental Activities

On March 25, 2003, the State issued \$44,940,000 in Highway Revenue Bonds, Series 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 semi-annually on January and July 1 through 2014.

On October 25, 2001, the Department of Transportation – Highways Division (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 semi-annually on January 1 and July 1 through July 2022.

On October 31, 2000, Highways issued State of Hawaii Highway Revenue Bonds, Series of 2000, in the principal amount of \$45,360,000. The bonds bear interest at rates ranging from 4.40% to 5.50% and mature in annual installments through fiscal 2021.

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

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Notes to Basic Financial Statements

June 30, 2004

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

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

On September 1, 1996, Highways issued \$55,000,000 in State of Hawaii Highway Revenue Bonds, Series of 1996. The bonds bear interest at rates ranging from 3.80% to 6.00% and mature in increasing annual installments through fiscal 2014.

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

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as the DHHL and Highways defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2004, bonds outstanding considered defeased amounted to \$7,135,000.

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Notes to Basic Financial Statements

June 30, 2004

The following is a summary of Highways' and DHHL's revenue bonds issued and outstanding at June 30, 2004 (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	3.800% – 6.000%	July 1, 2007 – July 1, 2013	\$ 34,635
1998	July 1, 1998	4.000% – 5.500%	July 1, 2004 – July 1, 2018	72,610
2000	October 31, 2000	4.400% – 5.500%	July 1, 2004 – July 1, 2020	45,630
2001	October 25, 2001	3.750% – 5.375%	July 1, 2004 – July 1, 2022	67,765
2003	March 25, 2003	2.000% – 5.250%	July 1, 2004 – July 1, 2013	44,940
DHHL:				
1999	January 15, 1999	3.800% – 4.450%	July 1, 2004 – July 1, 2011	11,100
				\$ 276,680

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2005	\$ 12,585	\$ 13,382	\$ 25,967
2006	13,050	12,886	25,936
2007	13,535	12,356	25,891
2008	14,120	11,782	25,902
2009	14,720	10,889	25,609
2010 – 2014	81,290	44,569	125,859
2015 – 2019	99,735	21,403	121,138
2020 – 2023	27,645	2,576	30,221
\$ 276,680		\$ 129,843	\$ 406,523

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.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

On August 26, 2003, Airports issued \$80,900,000 of Airports System Revenue Bonds, Refunding Series of 2003, with an initial rate of 2% per annum to June 30, 2004, which will be converted to a weekly rate, fixed rate, or extended rate, at the option of Airports, to refund the \$80,310,000 of its outstanding Series of 1993 bonds with interest rates ranging from 6.05% to 6.45%. The net proceeds of \$80,500,484 (after payment of \$1,080,694 in underwriting fees, insurance, and other costs), along with an additional \$2,535,170 from the Airport Revenue Fund were deposited in an irrevocable trust with an escrow agent to be used to purchase non-callable direct obligations of the U.S. government, maturing in amounts and bearing interest at such rates sufficient to meet the debt service requirements of the Series of 1993 bonds. On or about September 25, 2003, the refunded bonds were redeemed at a price of 102%. As a result, the refunded portion of the Series of 1993 bonds is considered to be defeased and the liability for those bonds has been removed from the accompanying basic financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$1,881,318. This difference, reported in the accompanying basic financial statements as a deduction from Airports system revenue bonds, is being charged to operations over the next 10 years. Airports in effect reduced its aggregate debt service payments by approximately \$16,195,000 over the next 10 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$15,204,000.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2004, bonds outstanding considered defeased amounted to \$135,540,000.

The following is a summary of Airports system revenue bonds issued and outstanding at June 30, 2004 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
1993, refunding	4.00% – 6.45%	2013	\$ 131,035	\$ —
1994, first refunding	4.15% – 5.60%	2004	63,455	10,765
2000A, refunding	5.50% – 6.00%	2021	26,415	26,415
2000B, refunding	5.00% – 8.00%	2020	261,465	249,275
2001, refunding	4.00% – 5.75%	2021	423,255	423,255
2003, refunding	2.00% – vary	2013	80,900	69,300
			\$ 986,525	779,010
Add unamortized premium				15,149
Less:				
Unamortized discount				(922)
Deferred loss on refunding				(19,483)
Current portion				(10,765)
Noncurrent portion				\$ 762,989

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provide reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverages for fire, workers' compensation, and public liability. At June 30, 2004, \$179,719,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

Airports Special Facility Revenue Bonds

Airports has four special facility lease agreements with Delta Airlines, Inc. in 1987, Continental Airlines, Inc. in November 1997 and July 2000, and Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of \$2,300,000, \$25,255,000, \$16,600,000, and \$6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to \$39,995,000 at June 30, 2004.

The following is a summary of pertinent information on Airports special facility revenue bonds at June 30, 2004:

\$2,300,000 Issue

The bonds have a stated maturity date of June 1, 2005 and bear interest at 6.50% per annum. The bonds are subject to early redemption at the option of Airports, at \$100.

\$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption on or after November 15, 2007, 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.

Notes to Basic Financial Statements

June 30, 2004

\$6,600,000 Issue

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2000, at the option of Airports, upon the request of Caterair International Corporation, at prices ranging from \$103 to \$100, depending on the dates of redemption, or at \$100 plus interest if the facilities are destroyed or damaged extensively.

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

Harbors Revenue Bonds

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

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

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

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Harbors defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2004, bonds outstanding considered defeased amounted to \$55,130,000.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

The following is a summary of the Harbors revenue bonds as of June 30, 2004 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current			Total	Noncurrent
				Principal Due July 1, 2004	Principal Due January 1, 2005	Installment Payments Due in Anticipation of Principal Payments on July 1, 2005		
1997	July 1, 2027	3.95% – 5.75%	\$ 56,290	\$ 470	\$ —	\$ 485	\$ 955	\$ 52,915
2000	July 1, 2029	4.50% – 6.00%	79,405	2,035	—	2,140	4,175	66,145
2002	July 1, 2019	3.00% – 5.50%	24,420	1,920	—	2,010	3,930	18,290
2004	January 1, 2024	2.50% – 6.00%	52,030	—	4,125	2,195	6,320	45,710
			<u>\$ 212,145</u>	<u>4,425</u>	<u>4,125</u>	<u>6,830</u>	<u>15,380</u>	<u>183,060</u>
	Add unamortized premium			—	—	189	189	1,195
	Less:							
	Unamortized discount			—	—	(143)	(143)	(1,911)
	Unamortized deferred loss on refunding			—	—	(567)	(567)	(4,825)
				<u>\$ 4,425</u>	<u>\$ 4,125</u>	<u>\$ 6,309</u>	<u>\$ 14,859</u>	<u>\$ 177,519</u>

Harbors Special Facility Revenue Bonds

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

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

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

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):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2005	\$ 53,135	\$ 53,957	\$ 107,092
2006	52,774	51,949	104,723
2007	55,452	49,762	105,214
2008	44,480	47,407	91,887
2009	35,203	45,693	80,896
2010 – 2014	236,743	196,321	433,064
2015 – 2019	345,138	113,538	458,676
2020 – 2024	143,990	24,895	168,885
2025 – 2029	39,765	6,783	46,548
	<u>\$ 1,006,680</u>	<u>\$ 590,305</u>	<u>\$ 1,596,985</u>

C. Revenue Bonds Authorized But Unissued

At June 30, 2004, revenue bonds authorized but unissued was approximately \$2,532,509,000.

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, 2004 amounted to \$1,502,635,500. At June 30, 2004, special purpose revenue bonds of \$984,670,000 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, 2004 amounted to \$2,965,000.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

(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, 2003	Additions	Deductions	Balance June 30, 2004	Due within one year
General obligation bonds payable, net (note 5)	\$ 3,634,738	\$ 662,380	\$ (342,926)	\$ 3,954,192	\$ 136,445
Accrued vacation payable	155,869	74,963	(72,077)	158,755	48,085
Revenue bonds payable (note 6)	288,470	—	(11,790)	276,680	12,585
Reserve for losses and loss adjustment costs (note 13)	102,100	19,000	(17,600)	103,500	73,000
Claims and judgments payable	251,500	15,100	(30,000)	236,600	30,000
Capital lease obligations (note 10)	67,505	—	(3,020)	64,485	3,145
Total	<u>\$ 4,500,182</u>	<u>\$ 771,443</u>	<u>\$ (477,413)</u>	<u>\$ 4,794,212</u>	<u>\$ 303,260</u>

	Business-Type Activities				
	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004	Due within one year
General obligation bonds payable, net (note 5)	\$ 225	\$ —	\$ (29)	\$ 196	\$ 29
Accrued vacation and retirement benefits payable	9,317	3,799	(4,033)	9,083	2,953
Revenue bonds payable (note 6)	1,076,100	132,930	(191,585)	1,017,445	27,150
Reserve for losses and loss adjustment costs	4,100	1,197	(1,197)	4,100	871
	1,089,742	137,926	(196,844)	1,030,824	31,003
Add unamortized premium	16,335	1,966	(1,765)	16,536	189
Less:					
Unamortized net discount	(4,081)	—	1,101	(2,980)	(143)
Deferred amount on refunding	(23,678)	(4,065)	2,868	(24,875)	(567)
	<u>\$ 1,078,318</u>	<u>\$ 135,827</u>	<u>\$ (194,640)</u>	<u>\$ 1,019,505</u>	<u>\$ 30,482</u>

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

(8) INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2004 (amounts expressed in thousands):

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund:		
Capital Projects Fund	\$ 89,900	\$ —
Nonmajor Governmental Funds	45,200	73
UH	6,000	5,121
HHSC	14,000	—
	<u>155,100</u>	<u>5,194</u>
Capital Projects Fund:		
General Fund	—	89,900
Harbors	1,262	—
	<u>1,262</u>	<u>89,900</u>
Nonmajor Governmental Funds:		
General Fund	73	45,200
	<u>73</u>	<u>45,200</u>
Proprietary Funds:		
Harbors:		
Capital Projects Fund	—	1,262
	<u>—</u>	<u>1,262</u>
Component Units:		
UH:		
General Fund	5,121	6,000
	<u>5,121</u>	<u>6,000</u>
HHSC:		
General Fund	—	14,000
	<u>—</u>	<u>14,000</u>
	<u>\$ 161,556</u>	<u>\$ 161,556</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

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(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, 2004, 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	\$ 15,355	\$ 259,843
Capital Projects Fund:		
Nonmajor Governmental Funds	71,419	5,205
Nonmajor Governmental Funds:		
General Fund	259,843	15,355
Capital Projects Fund	5,205	71,419
	<u>265,048</u>	<u>86,774</u>
	<u>\$ 351,822</u>	<u>\$ 351,822</u>

The General Fund transferred approximately \$235,400,000 to the Nonmajor Governmental Funds for debt service payments and approximately \$24,400,000 to subsidize various Special Revenue Fund programs. Approximately \$71,400,000 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, 2004 were as follows (amounts expressed in thousands):

Fiscal year:	
2005	\$ 6,782
2006	5,382
2007	3,952
2008	2,478
2009	1,412
2010 – 2014	5,050
2015 – 2019	4,210
2020 – 2024	2,735
2025 – 2028	150
Total future minimum lease payments	<u>\$ 32,151</u>

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Rent expenditures for operating leases for the fiscal year ended June 30, 2004 amounted to approximately \$46,000,000.

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

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

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

Fiscal year:		
2005	\$	6,351
2006		6,357
2007		6,352
2008		6,347
2009		6,354
2010 – 2014		31,753
2015 – 2019		27,358
2020		1,946
		<hr/>
Total future minimum lease payments		92,818
Less amount representing interest		(28,333)
		<hr/>
Present value of net minimum lease payments	\$	<u>64,485</u>

B. Lease Rentals

Airports – Airport-Airline Lease Agreement

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

Notes to Basic Financial Statements

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

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

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

Airports – Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). During fiscal 2000, the parties agreed to transfer the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal years 1996 through 2002 have been transferred to the PAUCF. Airports paid \$1,348,000 out of the PAUCF to the signatory airlines in fiscal 2004.

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 \$2,931,685 for fiscal 2004.

STATE OF HAWAII

Notes to Basic Financial Statements

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Airports – System Rates and Charges

Signatory and non-signatory airlines were assessed the following rates and charges:

- Landing fees, net of aviation fuel tax credits, amounted to \$33,517,262 for fiscal 2004 based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings.
- Nonexclusive joint-use premise charges for terminal rentals amounted to \$24,902,421 for fiscal 2004. The State waived the signatory airlines' underpayment of nonexclusive joint-use premise charges of \$1,637,867 and will transfer \$414,657 of overpayments 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.
- Exclusive use premise charges amounted to \$27,092,618 for fiscal 2004 and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to \$15,181,760 for fiscal 2004.
- Airports system support charges amounted to \$710,659 for fiscal 2004. 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.

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, 2004 was approximately \$49,837,000.

Concession fees revenues from the DFS Group L.P. (DFS), who 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 57% of total concession fees revenues for the fiscal year ended June 30, 2004.

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

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

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

The DFS retail concession contract, effective March 15, 2001, provides for payment of 20% of gross sales against minimum guarantee payments aggregating \$47,250,000 over the five-year contract.

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

Harbors – Aloha Tower Complex Development

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

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer and entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement) with the developer and Harbors. Harbors continues 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 as designated in the developer’s proposal and to reimburse Harbors for all losses in revenues and increased expenses which may be incurred by Harbors. The ATDC and the developer have agreed to offset reimbursements due to Harbors for losses in revenues during the construction period, with certain work performed by the developer to repair the structure of Piers 8 through 11, the cost of which would otherwise be incurred by Harbors. The developer is entitled to offset the cost of repairs, not to exceed \$1.1 million, against its obligation to reimburse Harbors for losses in revenues. The first phase of the Aloha Tower complex development has been completed.

The loss in revenues for fiscal 2004 amounted to \$1,763,995, and has been included in Harbors’ rental revenues. As of June 30, 2004, the amount due to Harbors was \$8,051,363.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2004

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, 2004 (amounts expressed in thousands):

	Proprietary Funds		
	Airports	Harbors	Total
Fiscal year:			
2005	\$ 62,133	\$ 8,806	\$ 70,939
2006	56,122	8,664	64,786
2007	14,676	8,131	22,807
2008	13,579	8,004	21,583
2009	8,166	8,083	16,249
Thereafter	78,055	263,989	342,044
	<u>\$ 232,731</u>	<u>\$ 305,677</u>	<u>\$ 538,408</u>

C. Net Investment in Direct Financing Lease

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2004, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	\$ 76,941
Less amount representing interest	<u>(40,244)</u>
	36,697
Cash with trustee and other	<u>3,566</u>
	<u>\$ 40,263</u>

STATE OF HAWAII

Notes to Basic Financial Statements

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Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2004 consisted of the following (amounts expressed in thousands):

Fiscal year:		
2005	\$	3,601
2006		3,477
2007		3,432
2008		3,390
2009		3,365
Thereafter		<u>63,242</u>
	\$	<u><u>80,507</u></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 public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

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

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

Notes to Basic Financial Statements

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B. Funding Policy

Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 27 years from June 30, 2002.

The State's contribution requirements as of June 30, 2004, 2003, and 2002 were approximately \$181,614,000, \$158,622,000, and \$113,984,000, respectively. The State contributed 100% of its required contributions for those years. Changes in salary growth assumptions and investment earnings pursuant to Act 100, SLH of 1999, decreased the June 30, 2001 and 2000 required contributions. Act 233, SLH of 2002, increased the 2003 contribution by providing a one-time lump-sum pensioner bonus to retirees who were 70 years and older with at least 20 years of credited service as of June 30, 2002. Also Act 284, SLH of 2001, provided an increase in the pension benefits effective 2003 to retirees with military service. Covered payroll for the fiscal year ended June 30, 2004 was approximately \$2,021,447,000.

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 24,200 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 2004, expenditures of \$151,851,000 were recognized for post-retirement health care and life insurance benefits, approximately \$35,136,000 of which is attributable to the Component Units.

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Notes to Basic Financial Statements

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

(12) COMMITMENTS AND CONTINGENCIES

A. Commitments

General Obligation Bonds

The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see note 5). At June 30, 2004, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:		
Economic Development	\$	273,454
Highways		100,886
Natural Resources		8,494
Agriculture		8,129
All Other		7,523
Administrative Support		1,466
	\$	<u>399,952</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, 2004, accumulated sick leave approximately \$1,170,076,000.

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, 2004.

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B. Proprietary Fund Type – Enterprise Funds

Construction and Service Contracts

At June 30, 2004, the Enterprise Funds had commitments of approximately \$101,568,000 for construction and service contracts.

C. Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2004, 2003, and 2002 approximated \$6,200,000, \$14,000,000, and \$4,200,000, 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. Through June 30, 2004, the State has received approximately \$38,490,000. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. As of June 30, 2004, the State expects to receive \$18,200,000 for the first six months of 2004.

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.

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

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

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

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

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

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw., 388 (2001) that Act 304 was effectively repealed by its own terms, and that there were no judicially manageable standards by which to determine whether OHA was entitled to the revenue it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. See *OHA v. State*, 96 Haw., 388 (2002). The Hawaii Supreme Court dismissed the case for lack of justiciability noting that it was up to the State

Notes to Basic Financial Statements

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Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. The State Legislature took no action during the 2002 legislative session, and the State's payments of 20% of "revenue" were discontinued as of the first quarter in fiscal 2002.

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

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

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federal law, and that there was no live, ripe controversy regarding those payments because the Forgiveness Act relieved the State and OHA of any obligation to return improper past payments.

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

OHA further alleges that these alleged "breaches, 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 is currently unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any. Resolution of all of OHA's claims could have a material adverse effect on the State's financial condition.

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

Notes to Basic Financial Statements

June 30, 2004

the ceded lands that the Corporation and State were required to pay OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit native Hawaiians' claim to those lands which the Plaintiff requested, and ordered that judgment be entered in the State's and 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.

At the present time, the State is not able to estimate with any reasonable certainty the magnitude of the potential liability as it may be determined either by judicial rulings (either at trial or on appeal) or by legislation enacted as a result of the process established in Act 329. Accordingly, no estimate of loss has been made in the accompanying basic financial statements. However, an ultimate decision against the State could have a material adverse effect on the financial position of the State.

Department of Education and Department of Health

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

Notes to Basic Financial Statements

June 30, 2004

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

Due to the scheduling needs of the U.S. District Court and the parties, stipulations were entered into by the parties extending U.S. District Court oversight and control over the Revised Consent Decree until April 30, 2004. At a hearing on April 8, 2004, the U.S. District Court approved the parties' stipulation, which provides for the termination of jurisdiction 30 days after the publication of State's fifth quarterly sustainability report (anticipated to be on or about May 30, 2005).

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, 2004.

As of June 30, 2004, the State has transferred approximately \$270,000,000 to the Hawaiian Home Lands Trust Fund. The State's remaining \$330,000,000 obligation discounted at 6% and assuming annual payments of \$30,000,000 over the remaining term of the obligation is approximately \$236,600,000. Such amount has been included in claims and judgments payable in the accompanying statement of net assets.

Transfer of Property

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

Notes to Basic Financial Statements

June 30, 2004

Individual Claims

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

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

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

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

On December 29, 1999, the same three claimants filed a class motion lawsuit in the First Circuit Court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima, et al. v. State of Hawaii, et al.*, Civil No. 99-4771-12VSM (First Circuit Court) (“*Kalima I*”). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (Third Circuit Court); *Silva v. State of Hawaii, et al.*, Civil No. 99-4775-12 (First Circuit Court); *Wilhelm v. State of Hawaii, et al.*, Civil No. 99-4774-12 (First Circuit Court); *Williamson v. State of Hawaii, et al.*, Civil No. 99-4773-12 (First Circuit Court); *Hanohano v. State of Hawaii, et al.*, Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated

Notes to Basic Financial Statements

June 30, 2004

to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiff Hanohano has since stipulated to the dismissal of her action without prejudice.

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

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

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

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

Notes to Basic Financial Statements

June 30, 2004

(13) RISK MANAGEMENT

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

A. Property Insurance

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

The State also has a crime insurance policy for various types of coverages with a minimum limit of loss of \$1,000,000 per occurrence and a maximum limit of \$10,000,000 with \$250,000 deductibles. 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, 2004

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, 2004 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>2004</u>	<u>2003</u>
Unpaid losses and loss adjustment costs at the beginning of the fiscal year	\$ 102,100	\$ 98,400
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	18,800	25,800
Increase (decrease) in provision for insured events of prior fiscal years	200	600
Total incurred losses and loss adjustment costs	<u>19,000</u>	<u>26,400</u>
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(2,000)	(3,000)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	<u>(15,600)</u>	<u>(19,700)</u>
Total payments	<u>(17,600)</u>	<u>(22,700)</u>
Unpaid losses and loss adjustment costs at the end of the fiscal year	<u>\$ 103,500</u>	<u>\$ 102,100</u>

(14) SUBSEQUENT EVENTS

General Obligation Bond Issue

On November 10, 2004, the State issued \$225,000,000 of general obligation bonds, Series DE. The bonds will bear interest ranging from 2.65% to 4.30% and will mature on October 1, 2024. The bonds were issued to finance certain expenditures and public improvement projects, including a payment in connection with the Hawaiian Home Lands Trust settlement.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

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

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

Human Services – accounts for social service programs which include public welfare, eligibility and disability determination, and housing assistance.

Education – accounts for programs related to instructional education, school food services, and student driver education.

Economic Development – accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Employment – accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

Regulatory – accounts for programs related to consumer protection, business registration, and cable television regulation.

Hawaiian Programs – accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support – accounts for programs of certain administrative agencies.

All Other – accounts for programs related to water recreation, inmate stores, and driver training and education.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

STATE OF HAWAII

**Nonmajor Governmental Funds
Combining Balance Sheet**

June 30, 2004

(Amounts in thousands)

<u>ASSETS</u>	<u>Special Revenue Funds</u>						
	<u>Highways</u>	<u>Natural Resources</u>	<u>Wastewater</u>	<u>Health</u>	<u>Med-Quest</u>	<u>Human Services</u>	<u>Education</u>
Cash and short-term investments	\$ 9,546	\$ 47,080	\$ 15,676	\$ 17,953	\$ 7,947	\$ 11,711	\$ 48,857
Receivables:							
Taxes	—	—	—	—	—	—	—
Notes and loans, net	—	21,932	169,050	—	—	—	—
Federal government	—	—	—	—	—	45,200	—
Other	8,388	—	—	—	—	—	—
Due from other funds	—	—	220	—	—	—	—
Investments	237,807	47,481	102,343	54,789	—	6,155	24,570
Other assets	—	1	—	—	—	—	—
Total Assets	<u>\$ 255,741</u>	<u>\$ 116,494</u>	<u>\$ 287,289</u>	<u>\$ 72,742</u>	<u>\$ 7,947</u>	<u>\$ 63,066</u>	<u>\$ 73,427</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Vouchers and contracts payable	\$ 6,235	\$ 1,195	\$ 17	\$ 4,137	\$ 27	\$ 299	\$ 2,228
Other accrued liabilities	282	489	45	1,287	—	106	1,503
Due to other funds	—	—	—	220	—	45,200	—
Payable from restricted assets – matured bonds and interest payable	—	—	—	—	—	—	—
Total Liabilities	<u>6,517</u>	<u>1,684</u>	<u>62</u>	<u>5,644</u>	<u>27</u>	<u>45,605</u>	<u>3,731</u>
Fund Balances:							
Reserved for:							
Continuing appropriations	157,361	18,977	1,045	38,776	26,846	21,937	29,809
Receivables and advances	—	21,932	169,050	—	—	—	—
Bond redemption and other	—	33,402	—	—	—	—	—
Unreserved for Special Revenue Funds:							
Designated for future expenditures	13,173	20,078	156,035	—	—	—	250
Undesignated	78,690	20,421	(38,903)	28,322	(18,926)	(4,476)	39,637
Total Fund Balances	<u>249,224</u>	<u>114,810</u>	<u>287,227</u>	<u>67,098</u>	<u>7,920</u>	<u>17,461</u>	<u>69,696</u>
Total Liabilities and Fund Balances	<u>\$ 255,741</u>	<u>\$ 116,494</u>	<u>\$ 287,289</u>	<u>\$ 72,742</u>	<u>\$ 7,947</u>	<u>\$ 63,066</u>	<u>\$ 73,427</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			
\$ 13,365	\$ 9,950	\$ 7,181	\$ 21,642	\$ 11,074	\$ 9,015	230,997	\$ 997		\$ 231,994
6,400	—	—	—	—	—	6,400	—		6,400
6,933	—	—	48,534	—	—	246,449	—		246,449
—	—	—	—	—	—	45,200	—		45,200
—	—	—	—	—	—	8,388	—		8,388
—	—	—	—	—	—	220	73	(220)	73
67,437	31,422	37,185	34,549	114,087	7,997	765,822	—		765,822
—	—	—	—	—	—	1	—		1
<u>\$ 94,135</u>	<u>\$ 41,372</u>	<u>\$ 44,366</u>	<u>\$ 104,725</u>	<u>\$ 125,161</u>	<u>\$ 17,012</u>	<u>\$ 1,303,477</u>	<u>\$ 1,070</u>	<u>\$ (220)</u>	<u>\$ 1,304,327</u>
\$ 4,228	\$ 570	\$ 187	\$ 540	\$ 612	\$ 275	\$ 20,550	\$ —	\$ —	\$ 20,550
251	951	830	134	884	477	7,239	—	—	7,239
—	—	—	—	—	—	45,420	—	(220)	45,200
—	—	—	—	—	—	—	998	—	998
<u>4,479</u>	<u>1,521</u>	<u>1,017</u>	<u>674</u>	<u>1,496</u>	<u>752</u>	<u>73,209</u>	<u>998</u>	<u>(220)</u>	<u>73,987</u>
20,077	161	3,656	4,665	21,685	16,142	361,137	72	—	361,209
6,933	—	—	48,534	—	—	246,449	—	—	246,449
—	—	—	—	—	—	33,402	—	—	33,402
5,730	—	—	9,258	21,818	118	226,460	—	—	226,460
<u>56,916</u>	<u>39,690</u>	<u>39,693</u>	<u>41,594</u>	<u>80,162</u>	<u>—</u>	<u>362,820</u>	<u>—</u>	<u>—</u>	<u>362,820</u>
<u>89,656</u>	<u>39,851</u>	<u>43,349</u>	<u>104,051</u>	<u>123,665</u>	<u>16,260</u>	<u>1,230,268</u>	<u>72</u>	<u>—</u>	<u>1,230,340</u>
<u>\$ 94,135</u>	<u>\$ 41,372</u>	<u>\$ 44,366</u>	<u>\$ 104,725</u>	<u>\$ 125,161</u>	<u>\$ 17,012</u>	<u>\$ 1,303,477</u>	<u>\$ 1,070</u>	<u>\$ (220)</u>	<u>\$ 1,304,327</u>

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Wastewater	Health	Med-Quest	Human Services	Education
Revenues:							
Taxes:							
General excise tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Transient accommodations tax	—	1,000	—	—	—	—	—
Tobacco and liquor taxes	—	—	—	—	—	—	—
Liquid fuel tax	79,606	240	—	—	—	—	—
Tax on premiums of insurance companies	—	—	—	—	—	—	—
Vehicle weight and registration tax	46,567	—	—	—	—	—	—
Rental motor/tour vehicle surcharge	41,414	—	—	—	—	—	—
Others	—	4,608	—	1,628	—	—	—
Total Taxes	167,587	5,848	—	1,628	—	—	—
Interest and investment income	8,720	2,861	6,931	1,384	18	85	402
Charges for current services	3,805	16,115	1,931	13,156	164	285	26,392
Intergovernmental	65,204	22,177	2,506	94,497	526,271	397,339	211,058
Rentals	1	2,490	—	—	—	—	28
Fines, forfeitures, and penalties	1,064	340	—	1,792	—	—	—
Licenses and fees	1,488	550	—	804	—	116	731
Revenues from private sources	—	4	—	38,489	—	—	341
Other	3,908	5,235	11,238	53	21,645	408	7,028
Total Revenues	251,777	55,620	22,606	151,803	548,098	398,233	245,980
Expenditures:							
Current:							
General government	—	1,286	—	—	—	—	—
Public safety	—	1,155	—	—	—	—	—
Highways	130,896	—	—	—	—	—	—
Conservation of natural resources	—	33,580	—	—	—	—	—
Health	—	42	8,809	139,062	—	—	—
Welfare	—	—	—	—	547,020	422,894	—
Lower education	—	—	—	—	—	—	256,445
Other education	—	—	—	—	—	10,464	—
Culture and recreation	—	5,731	—	—	—	—	2,303
Urban redevelopment and housing	—	—	—	—	—	—	—
Economic development and assistance	—	2,758	—	—	—	—	—
Other	—	—	—	—	—	—	—
Debt service	—	—	—	—	—	—	—
Total Expenditures	130,896	44,552	8,809	139,062	547,020	433,358	258,748
Excess (Deficiency) of Revenues over Expenditures	120,881	11,068	13,797	12,741	1,078	(35,125)	(12,768)
Other Financing Sources (Uses):							
Proceeds from refunding general obligation bonds – par	—	—	—	—	—	—	—
Proceeds from refunding general obligation bonds – premium	—	—	—	—	—	—	—
Payments to refunded bond escrow agent	—	—	—	—	—	—	—
Transfers in	34	1,699	3,831	4,876	7,515	32,661	1,984
Transfers out	(105,935)	(1,957)	—	(14,524)	(8,545)	(60)	(3,110)
Other	—	(1)	(4,629)	—	—	—	—
Total Other Financing Sources (Uses)	(105,901)	(259)	(798)	(9,648)	(1,030)	32,601	(1,126)
Net Change in Fund Balances	14,980	10,809	12,999	3,093	48	(2,524)	(13,894)
Fund Balances – Beginning	234,244	104,001	274,228	64,005	7,872	19,985	83,590
Fund Balances – Ending	\$ 249,224	\$ 114,810	\$ 287,227	\$ 67,098	\$ 7,920	\$ 17,461	\$ 69,696

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			
\$		\$	\$	\$	\$	\$	\$	\$	\$
94,552	—	—	—	6,161	—	6,161	—	—	6,161
—	—	—	—	—	—	95,552	—	—	95,552
—	—	—	—	1,004	—	1,004	—	—	1,004
—	—	—	—	—	1,555	81,401	—	—	81,401
—	—	1,335	—	—	—	1,335	—	—	1,335
—	—	—	—	—	—	46,567	—	—	46,567
—	—	—	—	—	—	41,414	—	—	41,414
—	1,000	2,000	—	—	—	9,236	—	—	9,236
94,552	1,000	3,335	—	7,165	1,555	282,670	—	—	282,670
2,015	941	996	559	959	289	26,160	—	—	26,160
5,182	18,104	16,186	—	43,748	14,101	159,169	—	—	159,169
13,361	51,181	—	5,429	18,034	21,903	1,428,960	—	—	1,428,960
13,243	—	—	1,446	6,000	1,129	24,337	—	—	24,337
—	834	4,238	—	209	1,923	10,400	—	—	10,400
—	—	9,795	—	10,511	402	24,397	—	—	24,397
(150)	—	—	—	350	—	39,034	—	—	39,034
2,575	1,442	100	8,105	20,263	3,649	85,649	164	—	85,813
130,778	73,502	34,650	15,539	107,239	44,951	2,080,776	164	—	2,080,940
—	—	—	—	33,535	6,019	40,840	—	—	40,840
—	2,582	27,343	—	14,258	26,401	71,739	—	—	71,739
—	—	—	—	—	—	130,896	—	—	130,896
—	—	—	—	44	—	33,624	—	—	33,624
—	—	—	—	100	—	148,013	—	—	148,013
—	—	—	—	9,159	567	979,640	—	—	979,640
—	—	—	—	9,252	—	265,697	—	—	265,697
—	—	—	—	—	—	10,464	—	—	10,464
—	—	—	—	9,332	8,125	25,491	—	—	25,491
—	—	—	16,145	—	—	16,145	—	—	16,145
96,860	70,151	—	—	73	—	169,842	—	—	169,842
—	—	—	—	4,193	2	4,195	—	—	4,195
—	—	—	—	—	—	—	301,515	—	301,515
96,860	72,733	27,343	16,145	79,946	41,114	1,896,586	301,515	—	2,198,101
33,918	769	7,307	(606)	27,293	3,837	184,190	(301,351)	—	(117,161)
—	—	—	—	—	—	—	212,380	—	212,380
—	—	—	—	—	—	—	12,707	—	12,707
—	—	—	—	—	—	—	(215,510)	—	(215,510)
5,636	—	2,446	—	13,723	2,279	76,684	301,275	(112,911)	265,048
(38,160)	(312)	(3,010)	(1,642)	(19,377)	(3,053)	(199,685)	—	112,911	(86,774)
(876)	—	—	(261)	(450)	—	(6,217)	(9,577)	—	(15,794)
(33,400)	(312)	(564)	(1,903)	(6,104)	(774)	(129,218)	301,275	—	172,057
518	457	6,743	(2,509)	21,189	3,063	54,972	(76)	—	54,896
89,138	39,394	36,606	106,560	102,476	13,197	1,175,296	148	—	1,175,444
\$ 89,656	\$ 39,851	\$ 43,349	\$ 104,051	\$ 123,665	\$ 16,260	\$ 1,230,268	\$ 72	\$ —	\$ 1,230,340

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, 2004

(Amounts in thousands)

	Budget	Highways Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ 73,570	\$ 79,606	\$ 6,036
Boating	—	—	—
Vehicle registration fee tax	18,203	19,174	971
State vehicle weight tax	25,711	27,393	1,682
Rental motor/tour vehicle surcharge tax	38,223	41,414	3,191
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	155,707	167,587	11,880
Non-taxes:			
Interest and investment income	12,900	8,720	(4,180)
Charges for current services	1,034	3,805	2,771
Intergovernmental	127,402	65,204	(62,198)
Rentals	4	1	(3)
Fines, forfeitures, and penalties	1,204	1,064	(140)
Licenses and fees	1,787	1,489	(298)
Revenues from private sources	—	—	—
Other	—	28,623	28,623
Total Non-taxes	144,331	108,906	(35,425)
Total Revenues	300,038	276,493	(23,545)
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	214,152	156,645	57,507
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	214,152	156,645	57,507
Excess (Deficiency) of Revenues over Expenditures	\$ 85,886	\$ 119,848	\$ 33,962

See accompanying independent auditors' report.

Natural Resources			Wastewater		
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ 220	\$ 240	\$ 20	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
2,686	4,608	1,922	—	—	—
—	—	—	—	—	—
—	1,000	1,000	—	—	—
—	—	—	—	—	—
<u>2,906</u>	<u>5,848</u>	<u>2,942</u>	<u>—</u>	<u>—</u>	<u>—</u>
2,328	2,035	(293)	7,081	6,931	(150)
14,953	16,115	1,162	1,760	1,932	172
12,345	22,176	9,831	19,320	2,506	(16,814)
2,149	2,490	341	—	—	—
49	340	291	—	—	—
555	551	(4)	—	—	—
1	4	3	—	—	—
3,889	3,508	(381)	8,626	15,069	6,443
<u>36,269</u>	<u>47,219</u>	<u>10,950</u>	<u>36,787</u>	<u>26,438</u>	<u>(10,349)</u>
<u>39,175</u>	<u>53,067</u>	<u>13,892</u>	<u>36,787</u>	<u>26,438</u>	<u>(10,349)</u>
781	741	40	—	—	—
3,227	1,732	1,495	—	—	—
—	—	—	—	—	—
50,371	31,181	19,190	—	—	—
—	—	—	95,622	5,152	90,470
—	—	—	—	—	—
—	—	—	—	—	—
6,232	4,689	1,543	—	—	—
—	—	—	—	—	—
1,524	1,243	281	—	—	—
—	—	—	—	—	—
<u>62,135</u>	<u>39,586</u>	<u>22,549</u>	<u>95,622</u>	<u>5,152</u>	<u>90,470</u>
\$ <u>(22,960)</u>	\$ <u>13,481</u>	\$ <u>36,441</u>	\$ <u>(58,835)</u>	\$ <u>21,286</u>	\$ <u>80,121</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, 2004

(Amounts in thousands)

	Health		
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	1,800	1,628	(172)
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	<u>1,800</u>	<u>1,628</u>	<u>(172)</u>
Non-taxes:			
Interest and investment income	1,393	1,384	(9)
Charges for current services	11,816	13,156	1,340
Intergovernmental	86,999	94,497	7,498
Rentals	—	—	—
Fines, forfeitures, and penalties	642	1,791	1,149
Licenses and fees	655	804	149
Revenues from private sources	20,023	38,490	18,467
Other	77	54	(23)
Total Non-taxes	<u>121,605</u>	<u>150,176</u>	<u>28,571</u>
Total Revenues	<u>123,405</u>	<u>151,804</u>	<u>28,399</u>
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	198,322	159,370	38,952
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	<u>198,322</u>	<u>159,370</u>	<u>38,952</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (74,917)</u>	<u>\$ (7,566)</u>	<u>\$ 67,351</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, 2004

(Amounts in thousands)

	Education		
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	<u>—</u>	<u>—</u>	<u>—</u>
Non-taxes:			
Interest and investment income	491	402	(89)
Charges for current services	22,297	26,392	4,095
Intergovernmental	143,459	211,058	67,599
Rentals	36	28	(8)
Fines, forfeitures, and penalties	—	—	—
Licenses and fees	588	731	143
Revenues from private sources	700	340	(360)
Other	1,080	8,762	7,682
Total Non-taxes	<u>168,651</u>	<u>247,713</u>	<u>79,062</u>
Total Revenues	<u>168,651</u>	<u>247,713</u>	<u>79,062</u>
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	439,188	269,032	170,156
Other education	—	—	—
Culture and recreation	4,385	2,392	1,993
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	<u>443,573</u>	<u>271,424</u>	<u>172,149</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (274,922)</u>	<u>\$ (23,711)</u>	<u>\$ 251,211</u>

See accompanying independent auditors' report.

Economic Development			Employment		
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	800	1,000	200
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
93,292	93,752	460	—	—	—
—	—	—	—	—	—
<u>93,292</u>	<u>93,752</u>	<u>460</u>	<u>800</u>	<u>1,000</u>	<u>200</u>
1,995	2,015	20	970	941	(29)
5,794	5,182	(612)	20,000	18,104	(1,896)
11,596	13,361	1,765	56,585	51,181	(5,404)
15,204	13,244	(1,960)	—	—	—
—	—	—	70	834	764
—	—	—	—	—	—
200	(151)	(351)	—	—	—
7,238	8,211	973	6	4,517	4,511
<u>42,027</u>	<u>41,862</u>	<u>(165)</u>	<u>77,631</u>	<u>75,577</u>	<u>(2,054)</u>
<u>135,319</u>	<u>135,614</u>	<u>295</u>	<u>78,431</u>	<u>76,577</u>	<u>(1,854)</u>
—	—	—	—	—	—
100	—	100	1,821	1,729	92
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
146,454	128,245	18,209	112,042	73,349	38,693
—	—	—	—	—	—
<u>146,554</u>	<u>128,245</u>	<u>18,309</u>	<u>113,863</u>	<u>75,078</u>	<u>38,785</u>
\$ <u>(11,235)</u>	\$ <u>7,369</u>	\$ <u>18,604</u>	\$ <u>(35,432)</u>	\$ <u>1,499</u>	\$ <u>36,931</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, 2004

(Amounts in thousands)

	Budget	Regulatory Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	2,000	2,000	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	700	1,335	635
Total Taxes	2,700	3,335	635
Non-taxes:			
Interest and investment income	—	996	996
Charges for current services	20,009	16,186	(3,823)
Intergovernmental	—	—	—
Rentals	—	—	—
Fines, forfeitures, and penalties	565	4,238	3,673
Licenses and fees	7,186	9,795	2,609
Revenues from private sources	—	—	—
Other	2,743	2,546	(197)
Total Non-taxes	30,503	33,761	3,258
Total Revenues	33,203	37,096	3,893
Expenditures:			
General government	—	—	—
Public safety	38,194	31,026	7,168
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	38,194	31,026	7,168
Excess (Deficiency) of Revenues over Expenditures	\$ (4,991)	\$ 6,070	\$ 11,061

See accompanying independent auditors' report.

Hawaiian Programs			Administrative Support		
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	8,200	6,161	(2,039)
—	—	—	1,027	1,004	(23)
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	9,227	7,165	(2,062)
750	559	(191)	811	958	147
1	—	(1)	33,671	43,748	10,077
6,840	5,429	(1,411)	26,690	17,217	(9,473)
—	1,447	1,447	5,735	6,000	265
—	—	—	294	209	(85)
—	—	—	12,240	10,511	(1,729)
—	—	—	350	350	—
3,040	8,105	5,065	15,645	526,441	510,796
10,631	15,540	4,909	95,436	605,434	509,998
10,631	15,540	4,909	104,663	612,599	507,936
—	—	—	355,357	337,777	17,580
—	—	—	18,094	9,127	8,967
—	—	—	—	—	—
—	—	—	375	44	331
—	—	—	400	400	—
—	—	—	16,948	11,501	5,447
—	—	—	9,168	8,852	316
—	—	—	—	—	—
—	—	—	11,613	9,221	2,392
16,648	13,242	3,406	—	—	—
—	—	—	—	—	—
—	—	—	216,606	199,634	16,972
16,648	13,242	3,406	628,561	576,556	52,005
\$ (6,017)	\$ 2,298	\$ 8,315	\$ (523,898)	\$ 36,043	\$ 559,941

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, 2004

(Amounts in thousands)

	<u>Budget</u>	<u>All Other Actual (Budgetary Basis)</u>	<u>Variance – Favorable (Unfavorable)</u>
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	1,300	1,555	255
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental motor/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Tobacco tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Tax on premiums of insurance companies	—	—	—
Total Taxes	<u>1,300</u>	<u>1,555</u>	<u>255</u>
Non-taxes:			
Interest and investment income	299	289	(10)
Charges for current services	18,526	14,101	(4,425)
Intergovernmental	13,714	21,903	8,189
Rentals	1,615	1,129	(486)
Fines, forfeitures, and penalties	2,489	1,923	(566)
Licenses and fees	399	402	3
Revenues from private sources	—	—	—
Other	5,356	5,627	271
Total Non-taxes	<u>42,398</u>	<u>45,374</u>	<u>2,976</u>
Total Revenues	<u>43,698</u>	<u>46,929</u>	<u>3,231</u>
Expenditures:			
General government	9,216	7,437	1,779
Public safety	50,346	33,302	17,044
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	550	391	159
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	17,097	9,393	7,704
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	<u>77,209</u>	<u>50,523</u>	<u>26,686</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (33,511)</u>	<u>\$ (3,594)</u>	<u>\$ 29,917</u>

See accompanying independent auditors' report.

	Total	
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ 73,790	\$ 79,846	\$ 6,056
1,300	1,555	255
18,203	19,174	971
25,711	27,393	1,682
38,223	41,414	3,191
800	1,000	200
8,200	6,161	(2,039)
1,027	1,004	(23)
2,686	4,608	1,922
1,800	1,628	(172)
2,000	2,000	—
93,292	94,752	1,460
700	1,335	635
<u>267,732</u>	<u>281,870</u>	<u>14,138</u>
29,018	25,333	(3,685)
149,861	159,170	9,309
1,227,214	1,253,442	26,228
24,743	24,339	(404)
5,313	10,399	5,086
23,860	24,399	539
21,274	39,033	17,759
48,550	663,336	614,786
<u>1,529,833</u>	<u>2,199,451</u>	<u>669,618</u>
<u>1,797,565</u>	<u>2,481,321</u>	<u>683,756</u>
365,354	345,955	19,399
111,782	76,916	34,866
214,152	156,645	57,507
50,746	31,225	19,521
294,344	164,922	129,422
887,340	815,645	71,695
448,356	277,884	170,472
11,912	11,748	164
39,327	25,695	13,632
16,648	13,242	3,406
260,020	202,837	57,183
216,606	199,634	16,972
<u>2,916,587</u>	<u>2,322,348</u>	<u>594,239</u>
\$ <u><u>(1,119,022)</u></u>	\$ <u><u>158,973</u></u>	\$ <u><u>1,277,995</u></u>

STATE OF HAWAII

Nonmajor Special Revenue Funds
Reconciliation of the Budgetary to GAAP Basis

June 30, 2004

(Amounts in thousands)

Excess of revenues over expenditures – actual (budgetary basis)	\$	158,973
Reserve for encumbrances at year-end*		205,134
Expenditures for liquidation of prior fiscal year encumbrances		(189,676)
Expenditures for unbudgeted programs, principally expenditures for capital projects accounts and revolving funds		(48,905)
Transfers		57,755
Accrued liabilities		697
Accrued revenues		212
Excess of revenues over expenditures – GAAP basis	\$	<u>184,190</u>

* Amounts reflect 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, 2004

(Amounts in thousands)

	<u>Agency Funds</u>			Total Agency Funds
	Tax Collections	Custodial	Other	
<u>ASSETS</u>				
Cash and short-term investments	\$ 8,984	\$ 134,514	\$ 34,836	\$ 178,334
Receivables – taxes	—	—	7,600	7,600
Investments:				
Liquid asset funds	—	—	79	79
U.S. government securities	—	—	11	11
Total Investments	—	—	90	90
Total Assets	<u>\$ 8,984</u>	<u>\$ 134,514</u>	<u>\$ 42,526</u>	<u>\$ 186,024</u>
<u>LIABILITIES</u>				
Vouchers payable	\$ 7,978	\$ 222	\$ 97	\$ 8,297
Due to individuals, businesses, and counties	1,006	134,292	42,429	177,727
Total Liabilities	<u>\$ 8,984</u>	<u>\$ 134,514</u>	<u>\$ 42,526</u>	<u>\$ 186,024</u>

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, 2004

(Amounts in thousands)

	<u>Balance, July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2004</u>
Tax Collections:				
Assets:				
Cash and short-term investments	\$ 1,384	\$ 4,576,670	\$ (4,569,070)	\$ 8,984
Total Assets	<u>\$ 1,384</u>	<u>\$ 4,576,670</u>	<u>\$ (4,569,070)</u>	<u>\$ 8,984</u>
Liabilities:				
Vouchers payable	\$ 935	\$ 7,978	\$ (935)	\$ 7,978
Due to individuals, businesses, and counties	449	4,576,670	(4,576,113)	1,006
Total Liabilities	<u>\$ 1,384</u>	<u>\$ 4,584,648</u>	<u>\$ (4,577,048)</u>	<u>\$ 8,984</u>
Custodial:				
Assets:				
Cash and short-term investments	\$ 41,922	\$ 2,863,766	\$ (2,771,174)	\$ 134,514
Investments	51,556	—	(51,556)	—
Total Assets	<u>\$ 93,478</u>	<u>\$ 2,863,766</u>	<u>\$ (2,822,730)</u>	<u>\$ 134,514</u>
Liabilities:				
Vouchers payable	\$ 652	\$ 222	\$ (652)	\$ 222
Due to individuals, businesses, and counties	92,826	2,863,766	(2,822,300)	134,292
Total Liabilities	<u>\$ 93,478</u>	<u>\$ 2,863,988</u>	<u>\$ (2,822,952)</u>	<u>\$ 134,514</u>
Other:				
Assets:				
Cash and short-term investments	\$ —	\$ 34,836	\$ —	\$ 34,836
Receivables	6,700	900	—	7,600
Investments	30,737	90	(30,737)	90
Total Assets	<u>\$ 37,437</u>	<u>\$ 35,826</u>	<u>\$ (30,737)</u>	<u>\$ 42,526</u>
Liabilities:				
Vouchers payable	\$ 925	\$ 97	\$ (925)	\$ 97
Due to individuals, businesses, and counties	36,512	26,036	(20,119)	42,429
Total Liabilities	<u>\$ 37,437</u>	<u>\$ 26,133</u>	<u>\$ (21,044)</u>	<u>\$ 42,526</u>
Total – All Agency Funds:				
Assets:				
Cash and short-term investments	\$ 43,306	\$ 7,475,272	\$ (7,340,244)	\$ 178,334
Receivables	6,700	900	—	7,600
Investments	82,293	90	(82,293)	90
Total Assets	<u>\$ 132,299</u>	<u>\$ 7,476,262</u>	<u>\$ (7,422,537)</u>	<u>\$ 186,024</u>
Liabilities:				
Vouchers payable	\$ 2,512	\$ 8,297	\$ (2,512)	\$ 8,297
Due to individuals, businesses, and counties	129,787	7,466,472	(7,418,532)	177,727
Total Liabilities	<u>\$ 132,299</u>	<u>\$ 7,474,769</u>	<u>\$ (7,421,044)</u>	<u>\$ 186,024</u>

See accompanying independent auditors' report.

PART III: STATISTICAL SECTION

STATE OF HAWAII
Schedule of Government-Wide Revenues

Last Three Fiscal Years

(Amounts in thousands)

Fiscal Year Ended June 30,	PROGRAM REVENUES			GENERAL REVENUES			
	Charges for Current Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Interest and Investment Income	Other	Total
2004	\$ 766,453	\$ 1,687,923	\$ 64,254	\$ 3,745,883	\$ 66,662	\$ (9,658)	\$ 6,321,517
2003	729,516	1,586,719	97,543	3,441,398	94,419	9,760	5,959,355
2002	612,639	1,481,083	99,634	3,285,733	130,913	93,718	5,703,720

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Government-Wide Expenses by Function

Last Three Fiscal Years

(Amounts in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
General government	\$ 427,820	\$ 475,517	\$ 469,438
Public safety	239,932	252,741	247,205
Highways	413,215	439,923	346,241
Conservation of natural resources	69,693	48,918	30,220
Health	520,433	515,492	498,068
Welfare	1,547,732	1,418,224	1,335,207
Lower education	1,795,482	1,660,595	1,488,825
Higher education	480,296	537,709	455,037
Other education	23,092	38,161	88,605
Culture and recreation	64,052	71,738	69,354
Urban redevelopment and housing	59,394	42,713	1,236
Economic development and assistance	214,206	231,605	267,451
Interest expense	179,357	200,864	142,118
Airports	273,546	291,871	279,654
Harbors	54,432	61,448	46,315
Unemployment compensation	176,135	204,344	213,682
Nonmajor proprietary fund	2,496	789	788
Total	<u>\$ 6,541,313</u>	<u>\$ 6,492,652</u>	<u>\$ 5,979,444</u>

See accompanying independent auditors' report.

STATE OF HAWAII

**Schedule of Revenues by Source –
All Governmental Fund Types**

Last Ten Fiscal Years

(Amounts in millions)

Source	For the Fiscal Year Ended June 30,									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Taxes:										
General excise	\$ 1,900	\$ 1,780	\$ 1,651	\$ 1,642	\$ 1,542	\$ 1,448	\$ 1,417	\$ 1,430	\$ 1,426	\$ 1,365
Income	1,254	1,051	1,082	1,187	1,132	1,110	1,128	1,023	1,046	959
Inheritance and estate	10	16	17	18	23	29	20	22	17	16
Liquor	41	41	39	38	39	39	39	38	38	38
Public service companies	100	114	93	135	119	121	120	114	104	101
Tobacco	79	72	65	55	42	42	36	36	40	35
Insurance companies										
premiums	79	74	69	72	69	53	87	75	85	64
Franchise	1	23	5	—	7	10	16	13	16	18
Transient accommodations	102	92	87	108	93	55	26	26	24	19
Liquid fuel	81	77	75	74	71	70	70	71	71	69
Motor vehicle	88	85	78	81	75	39	38	37	37	38
Hospital and nursing facility(1)	—	—	—	—	—	—	3	12	10	17
Other	18	13	13	13	14	34	32	34	33	33
Total taxes	3,753	3,438	3,274	3,423	3,226	3,050	3,032	2,931	2,947	2,772
Non-taxes:										
Interest and investment income	42	61	71	150	69	91	89	82	92	113
Charges for current services	229	215	165	236	240	220	233	207	204	254
Intergovernmental	1,528	1,362	1,258	1,120	1,070	1,091	1,080	1,170	1,128	835
Rentals	31	28	31	29	23	22	24	22	29	32
Fines, forfeitures and penalties	30	24	24	23	25	23	23	21	18	18
Licenses and fees	26	27	24	23	22	20	19	16	16	14
Other	151	215	253	146	165	134	90	118	116	128
Total Revenues – All Governmental Fund Types	\$ 5,790	\$ 5,370	\$ 5,100	\$ 5,150	\$ 4,840	\$ 4,651	\$ 4,590	\$ 4,567	\$ 4,550	\$ 4,166

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

See accompanying independent auditors' report.

STATE OF HAWAII

**Schedule of Expenditures by Function –
All Governmental Fund Types**

Last Ten Fiscal Years

(Amounts in millions)

Function	For the Fiscal Year Ended June 30,									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General government	\$ 451	\$ 429	474	\$ 483	\$ 442	\$ 489	\$ 413	\$ 404	\$ 404	\$ 423
Public safety	265	257	240	201	203	199	185	165	164	174
Highways	223	255	236	131	115	111	111	115	94	102
Conservation of natural resources	65	66	57	51	41	45	37	36	33	38
Health	519	513	500	431	399	386	329	311	279	328
Welfare	1,545	1,418	1,334	1,248	1,226	1,222	1,210	1,278	1,236	1,023
Education	2,262	2,321	2,134	1,050	1,035	1,007	949	888	891	920
Culture and recreation	67	71	68	57	56	52	52	55	57	66
Urban redevelopment and housing	55	17	12	10	10	11	15	21	26	30
Economic development and assistance	215	231	267	200	192	166	155	163	176	196
Social security and pension contributions	—	—	—	91	85	159	222	226	222	150
Intergovernmental	—	—	—	—	—	—	—	3	3	4
Debt service	302	394	363	402	384	390	406	426	416	345
Capital outlay	—	—	—	335	376	376	373	611	488	554
Other	3	—	—	13	9	28	28	20	16	11
Total Expenditures – All Governmental Fund Types	\$ <u>5,972</u>	\$ <u>5,972</u>	\$ <u>5,685</u>	\$ <u>4,703</u>	\$ <u>4,573</u>	\$ <u>4,641</u>	\$ <u>4,485</u>	\$ <u>4,722</u>	\$ <u>4,505</u>	\$ <u>4,364</u>

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Ratio of Net General Obligation Bonded Debt Per Capita

Last Ten Fiscal Years

(Amounts in thousands except ratio data)

<u>Fiscal Year</u>	<u>Population(1)</u>	<u>General Obligation Bonded Debt(2)(3)</u>	<u>Less Debt Service Monies Available(2)</u>	<u>Net General Obligation Bonded Debt</u>	<u>Net General Obligation Bonded Debt Per Capita</u>
2004	1,264	\$ 3,954,192	\$ 72	\$ 3,954,120	\$ 3,128
2003	1,249	3,634,738	148	3,634,590	2,910
2002	1,237	3,568,001	79	3,567,922	2,884
2001	1,227	3,225,635	110	3,225,525	2,629
2000	1,212	3,278,479	258	3,278,221	2,705
1999	1,186	3,166,880	223	3,166,657	2,670
1998	1,191	3,363,517	338	3,363,179	2,824
1997	1,192	3,075,862	435	3,075,427	2,580
1996	1,184	2,841,069	240	2,840,829	2,399
1995	1,179	2,901,651	165	2,901,486	2,461

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

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

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

See accompanying independent auditors' report.

STATE OF HAWAII

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

Last Ten Fiscal Years

(Amounts in thousands except ratio data)

Fiscal Year	Principal	Interest and Fees	Total Debt Service	Total General Expenditures	Ratio of Debt Service to General Expenditures
2004	\$ 139,227	\$ 162,288	\$ 301,515	\$ 5,972,173	5.05 %
2003	242,378	151,945	394,323	5,971,576	6.60
2002	233,117	129,483	362,600	5,684,875	6.38
2001	210,518	190,993	401,511	4,703,420	8.54
2000	193,075	190,497	383,572	4,572,956	8.39
1999	202,836	186,762	389,598	4,641,159	8.39
1998	231,756	174,577	406,333	4,485,334	9.06
1997	268,683	156,890	425,573	4,721,851	9.01
1996	260,156	155,888	416,044	4,504,746	9.24
1995	200,552	144,044	344,596	4,364,021	7.90

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Revenue Bond Coverage*

Last Ten Fiscal Years

(Amounts in thousands except coverage data)

Airports

Fiscal Year	Gross Revenues(1)	Operating Expenses(2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage(4)
				Principal	Interest (3)	Total	
2004	234,701	151,717	82,984	22,365	18,814	41,179	202%
2003	265,714	167,111	98,603	19,550	15,536	35,086	281
2002	218,359	141,409	76,950	27,185	6,275	33,460	230
2001	334,511	123,973	210,538	48,810	48,020	96,830	217
2000	332,264	135,125	197,139	52,120	53,046	105,166	187
1999	285,353	127,136	158,217	41,705	35,349	77,054	205
1998	294,078	125,007	169,071	37,100	39,416	76,516	221
1997	317,943	126,612	191,331	37,595	59,440	97,035	197
1996	314,647	120,632	194,015	42,578	59,245	101,823	191
1995	306,848	129,376	177,472	41,130	53,786	94,916	187

Harbors

Fiscal Year	Gross Revenues(5)	Operating Expenses(6)	Net Revenue Available for Debt Service	Debt Service Requirements	Additional Debt Service	Total	Coverage(7)
				During the Fiscal Year	Requirements		
2004	78,433	26,809	51,624	20,527	—	20,527	251%
2003	77,571	35,214	42,357	19,652	—	19,652	216
2002	70,873	20,992	49,881	20,093	—	20,093	248
2001	75,353	26,525	48,828	30,590	—	30,590	160
2000	68,931	21,917	47,014	31,347	—	31,347	150
1999	64,729	22,891	41,838	30,152	—	30,152	139
1998	65,659	24,348	41,311	16,815	—	16,815	246
1997	55,496	20,824	34,672	16,444	—	16,444	211
1996	52,791	20,568	32,223	15,686	—	15,686	205
1995	54,092	21,498	32,594	14,997	—	14,997	217

- (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) For fiscal 2004, Airports deposited \$25,000 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 2004 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."
- (4) Airports revenue bond indentures require a minimum debt service coverage percentage of 125%.
- (5) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.
- (6) Total operating expenses other than depreciation less State of Hawaii surcharge for central service expenses.
- (7) Harbors revenue bond indentures require a minimum debt service coverage percentage of 135%.

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.

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

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Legal Debt Margin

June 30, 2004

(Amounts in thousands)

Average General Fund revenues of the three preceding fiscal years ended June 30, 2002, 2003, and 2004	\$ 3,455,569
Constitutional debt limit percentage	<u>18.50%</u>
Constitutional debt limit for total principal and interest payable in a current or future year	639,280
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2009)	<u>(527,561)</u>
Legal debt margin	<u><u>\$ 111,719</u></u>

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

See accompanying independent auditors' report.

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2004

(Amounts in thousands)

Revenues	\$ 3,907,746
Expenditures	<u>3,829,159</u>
Excess of Revenues over Expenditures	<u>78,587</u>
Other Changes in Unreserved – Undesignated Fund Balance:	
Add continuing appropriations, July 1, 2003	208,627
Deduct continuing appropriations, June 30, 2004	<u>219,830</u>
	<u>(11,203)</u>
Excess of Revenues over Expenditures and Other Changes in Unreserved – Undesignated Fund Balance	67,384
Unreserved – Undesignated Fund Balance, July 1, 2003, on a statutory (cash) basis	<u>117,198</u>
Unreserved – Undesignated Fund Balance, June 30, 2004, on a statutory (cash) basis	184,582
Adjustments from statutory (cash) basis to GAAP basis:	
Accrued tax revenues	337,200
Accrued expenditures	(100,242)
Tax refund liability	<u>(39,800)</u>
Unreserved – Undesignated Fund Balance, June 30, 2004, on a GAAP basis	<u>\$ 381,740</u>

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Demographic Statistics

Last Ten Years

(Population amounts expressed in thousands)

<u>Year</u>	<u>Population(1)</u>	<u>Per Capita Income(2)</u>	<u>School Enrollment(3)</u>	<u>Unemployment Rate(4)</u>
2004	1,264	\$ NA	NA	3.40%
2003	1,249	30,913	183,609	3.90
2002	1,237	29,875	183,829	4.40
2001	1,227	28,690	184,546	4.40
2000	1,212	28,417	NA	4.50
1999	1,186	26,973	185,860	5.60
1998	1,191	26,132	188,069	6.20
1997	1,192	25,587	189,887	6.40
1996	1,184	25,024	186,581	6.40
1995	1,179	25,004	183,795	5.90

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

(2) Source: U.S. Department of Commerce, Bureau of Economic Analysis printouts.

(3) Source: Hawaii State Department of Education records. Data represents September enrollment for public schools.

(4) Source: Hawaii State Department of Labor and Industrial Relations records. 2004 is based on data for the first 9 months.

N/A Not available for 2004 and 2000.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Bank Deposits

Last Ten Calendar Years

(Amounts in millions)

<u>Calendar Year</u>	<u>Bank Deposits</u>
2004	\$ NA
2003	17,442
2002	16,708
2001	15,763
2000	16,741
1999	16,107
1998	16,038
1997	14,541
1996	14,033
1995	13,149

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

N/A Not available for the calendar year 2004.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Ten Largest Private Employers

June 30, 2004

<u>Company</u>	<u>Industry</u>
Aloha Airgroup, Inc.	Air transportation
BancWest Corp.	Financial services
Bank of Hawaii Corp.	Bank holding company
Hawaii Pacific Health	Health care services
Hawaiian Airlines, Inc.	Air transportation
Hawaiian Electric Industries, Inc.	Energy and financial services
Kaiser Permanente Medical Care Program	Health care services
Kyo-ya Co., Ltd.	Hotel, food, retail sales, insurance
Marriott International	Hotels and resorts
The Queen's Health System	Health care services

Listed alphabetically.

Source: Hawaii Business, August 2004.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Miscellaneous Statistics

June 30, 2004

Date of statehood	1959
Form of government	Legislative-Executive-Judicial
Number of state employees****	70,550
Area in square miles**	6,423
Miles of streets and highways****	4,307
Recreation and culture:	
Number of parks and historic sites***	69
Total acreage***	28,002
Number of libraries****	50
Public safety:	
Number of fire personnel****	1,856
Number of police personnel****	3,347
Sewage (millions of gallons)****	50,497
Water system:	
Number of services****	247,862
Consumption (millions of gallons)****	80,735
Education:	
Number of public schools*	246
Number of teachers*	11,629
Hospitals:	
Number of hospitals***	72
Number of beds***	7,623

**** Represents 2003 data

*** Represents 2002 data

** Represents 2000 data

* Represents 1995 data

Source: Internet (2004) revised as of August 31, 2004, except for public safety personnel and number of public schools. Public safety personnel reflects data from the counties' comprehensive annual financial reports and number of public schools reflects data from Hawaii State Department of Education records.

See accompanying independent auditors' report.