STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RUSS K. SAITO
COMPTROLLER

STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PREPARED BY
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

RUSS K. SAITO
COMPTROLLER

STATE OF HAWAII

Comprehensive Annual Financial Report
Table of Contents

June 30, 2005

PART I: INTRODUCTORY SECTION

PART II: FINANCIAL SECTION

Comprehensive Annual Financial Report
Table of Contents

June 30, 2005

STATE OF HAWAII

Comprehensive Annual Financial Report
Table of Contents

June 30, 2005

Page

PART III: STATISTICAL SECTION

PART I: INTRODUCTORY SECTION

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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2005

Russ K. Saito
Comptroller

Governor	**Linda Lingle**
Director of Finance	**Georgina Kawamura**
Director of Taxation	**Kurt Kawafuchi**
Comptroller	**Russ K. Saito**

Notes:

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

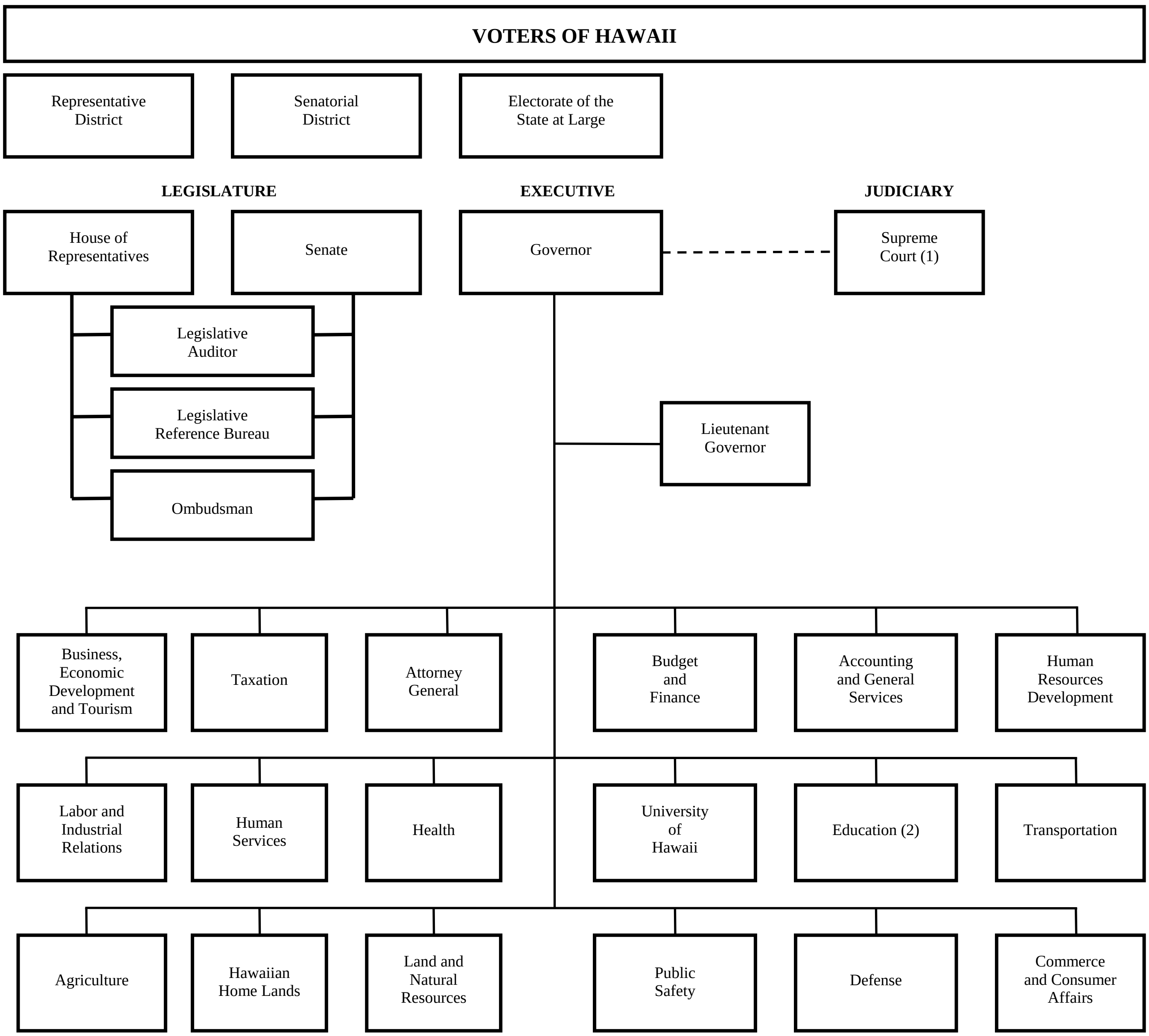
The Comptroller is also department head of the Department of Accounting and General Services.

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, 2005



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

(2) The Board of Education is elected.

LINDA LINGLE
GOVERNOR

RUSS K. SAITO
Comptroller

KATHERINE H. THOMASON
Deputy Comptroller

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

January 30, 2006

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, 2005. 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 an MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A is included in Part II of this report.

THE REPORTING ENTITY AND ITS SERVICES

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

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

FACTORS AFFECTING FINANCIAL CONDITION

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

State of the Economy

Overview

Indicators of Hawaii economic activity during the first half of 2005 show a consistent upward trend. The labor force, the number of people employed, and the number of wage and salary jobs grew at above-average rates. Construction permitting remains at a high level. Investment in real estate continues to add to business and consumer spending. Visitor arrivals and average daily visitor census are both up and federal spending remained strong. Optimism regarding Hawaii's economic future is supported by healthy projections for the U.S. economy and moderate expectations for Japan.

Labor

Hawaii's total civilian employment averaged 612,950 persons during the first eight months of 2005, a 3.0% increase over the same period in 2004. The number of wage and salary jobs was up 16,750 to 601,550 for a 2.9% increase for the first eight months of 2005. Jobs for the quarter were up most notably in construction; professional and business services; retail trade; and transportation, warehousing, and utilities, each with an increase of at least 2,000 jobs. According to the Bureau of Labor statistics, Hawaii had the lowest unemployment rate in the nation in August at 2.7%.

Taxes

Tax revenues distributed to the State's General Fund increased 16.3% during the first eight months of 2005 compared to the same period of 2004. The increase to the General Fund was almost $400.0 million. Revenues from the general excise and use tax increased by 13.4%, or $179.0 million, while net individual income tax collections were up 19.45%, or $155.0 million, from the first eight months of 2004. Transient accommodations tax (TAT) revenues increased $11.9 million, or 9.0%.

Personal Income

Nominal personal income in Hawaii was $3.3 billion, or 8.2%, higher in the second quarter of 2005 compared to the second quarter of 2004, the period for which the most recent data are available from the U.S. Bureau of Economic Analysis. Most of the increase was accounted for by wages and salaries which added $2.2 billion. Supplements to wages and salaries (formerly other labor income) showed the highest rate of increase (10.8%) followed by proprietors' income (9.7%); wages and salaries (9.4%); personnel current transfer receipts (formerly transfer payments, 5.9%); and dividends, interest, and rent (2.4%). Contributions for government social insurance, which is deducted from personal income, increased 7.7%.

Prices

The rate of inflation in Hawaii declined slightly during the first half of 2005 after holding steady during 2004. The Honolulu consumer price index for all urban consumers (CPI-U) rose at a 3.1% annual rate in the first half of 2005 compared to 3.3% in 2004. This was somewhat higher than the 3.0% inflation experienced on the Mainland during the first half of 2005. The increase in Honolulu's CPI-U was led by a 4.0% increase in the most heavily weighted category, housing, and a 4.4% increase in transportation.

Recent Developments in Hawaii's Major Industries

Visitor Industry

The number of visitors arriving by air increased 7.1% comparing the first eight months of 2005 to the first eight months of 2004. Domestic arrivals were up 7.3% and international arrivals (visitors on flights originating outside the United States) increased 6.7%. The number of visitor days (visitor arrivals multiplied by average length of stay) increased 7.4% during the first eight months of 2005 over the same period in 2004. Visitor days increased more than visitor arrivals, because average length of stay increased 0.6% during the first eight months of 2005. Average hotel occupancy rates were up 3.1%, increasing from 79.7% in the first eight months of 2004 to 82.8% in the same period in 2005. Average daily room rates for the first eight months of 2005 increased 7.4% to $164.90.

Construction

The Hawaii construction industry activity continued to grow in the first half of 2005. The general excise tax base for contracting increased by 20.4% to $2.7 billion for the first six months of 2005. Jobs in the construction industry for the first eight months of 2005 were up 10.1% higher than the January through August period of 2004. Reported private building authorizations stand at $1.85 billion after the first nine months of 2005. These figures are not directly comparable to 2004 values since Maui county permits are unreported since March. Government contracts awarded during the first six months of 2005 were $319.2 million compared with $1,060.8 million in the first half of 2004.

Agriculture

The agriculture sector held steady during the first eight months of 2005 based on the number of wage and salary jobs in the sector. Agricultural wage and salary jobs increased 0.3% over the first eight months of 2005, to an average of just over 7,200 jobs.

Outlook for Hawaii's Economy

Hawaii's economic outlook is positive. Hawaii's economy is linked to its visitor market and the U.S. and Japan economies. The consensus projections of the U.S. economy have remained 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 by 3.5% in 2005 and by 3.3% in 2006. The Japanese real gross domestic product is estimated to increase by 2.0% in 2005 and 1.9% in 2006.

State economists at the Department of Business, Economic Development and Tourism (DBEDT) expect continued growth for tourism, personal income, and wage and salary employment in 2005 and 2006. Current 2005 forecasts for visitor arrivals and visitor expenditures are an increase of 6.5% and 6.9%, respectively. In 2006, visitor arrivals are forecast to grow by 2.9% and visitor expenditures by 5.8%. Visitor days are forecast to increase by 6.5% in 2005 and by 2.9% in 2006.

Real Personal Income and real Gross State Product (GSP) are forecast to show a 3.5% increase in 2005. Both indicators are forecast to increase by 2.8% in 2006. Wage and salary jobs should increase by 2.7% in 2005 and by 1.5% in 2006.

DBEDT expects inflation, as measured by changes in the Honolulu CPI, to grow at a 3.4% rate in 2005 and 3.3% rate in 2006. The GSP deflator, which is estimated based on the Blue Chip U.S. Gross Domestic Product projection, is forecast to reach 3.2% in 2005 and 2.9% in 2006.

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 programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2003, as amended by the Supplemental Appropriations Act of 2004, 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, 2005. 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 2005, the State Treasury earned $25.2 million for the General Fund by investing its temporary cash surpluses, an increase of $9.4 million from the amount earned in the previous fiscal year. The fiscal 2005 earnings represent an average investment yield of 2.5%, an increase of 0.1% 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 and terrorism which is $50 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, 2005. The Independent Auditors' Report has been included in Part II of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This was the sixteenth 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,

Russ K. Saito

Russ K. Saito
Comptroller, State of Hawaii

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Hawaii

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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

President

Executive Director

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PART II: FINANCIAL SECTION

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KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2005, which collectively comprise the State of Hawaii's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds, which represent 85% and 67%, respectively, of the assets and revenues of the business-type activities, and the University of Hawaii, the Housing and Community Development Corporation of Hawaii, the Hawaii Health Systems Corporation, and the Hawaii Hurricane Relief Fund, which represent all of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the University of Hawaii, the Housing and Community Development Corporation of Hawaii, the Hawaii Health Systems Corporation, and the Hawaii Hurricane Relief Fund, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Hawaii's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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

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

KPMG LLP

January 13, 2006

As management of the State of Hawaii (the State), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3 – 7 of this report.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2005 by $8.8 billion (net assets). Of this amount, $1.9 billion (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors. Net assets of governmental activities increased by $419.1 million and net assets of business-type activities increased by $93.0 million for an increase to the State of $512.0 million from the prior fiscal year.

Fund Highlights

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

Long-Term Liabilities

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

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 51 – 101 of this report.

Other Supplementary Information

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

Government-Wide Financial Analysis

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

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $8.8 billion as of June 30, 2005, and increased $512.0 million, or 6.2%, over the course of this fiscal year's operations. The net assets of the governmental activities increased by $419.1 million, or 7.1%, and business-type activities had an increase of $93.0 million, or 3.9%. The following table was derived from the government-wide statement of net assets.

Net Assets

June 30, 2005 and 2004

(Amounts in thousands)

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

Analysis of Net Assets

By far the largest portion of the State's net assets ($5.5 billion or 62.5%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

Changes in Net Assets

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

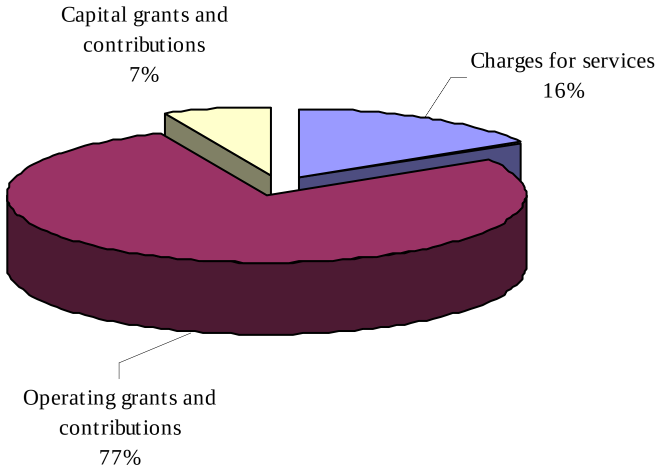
The following financial information was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year.

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

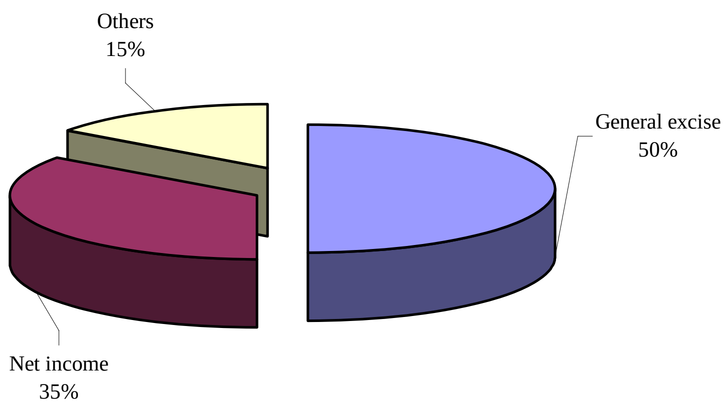
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	$ 355,668	$ 283,459	$ 484,164	$ 482,994	$ 839,832	$ 766,453
Operating grants and contributions	1,667,492	1,687,923	—	—	1,667,492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

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

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



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



Analysis of Changes in Net Assets

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

Governmental Activities

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

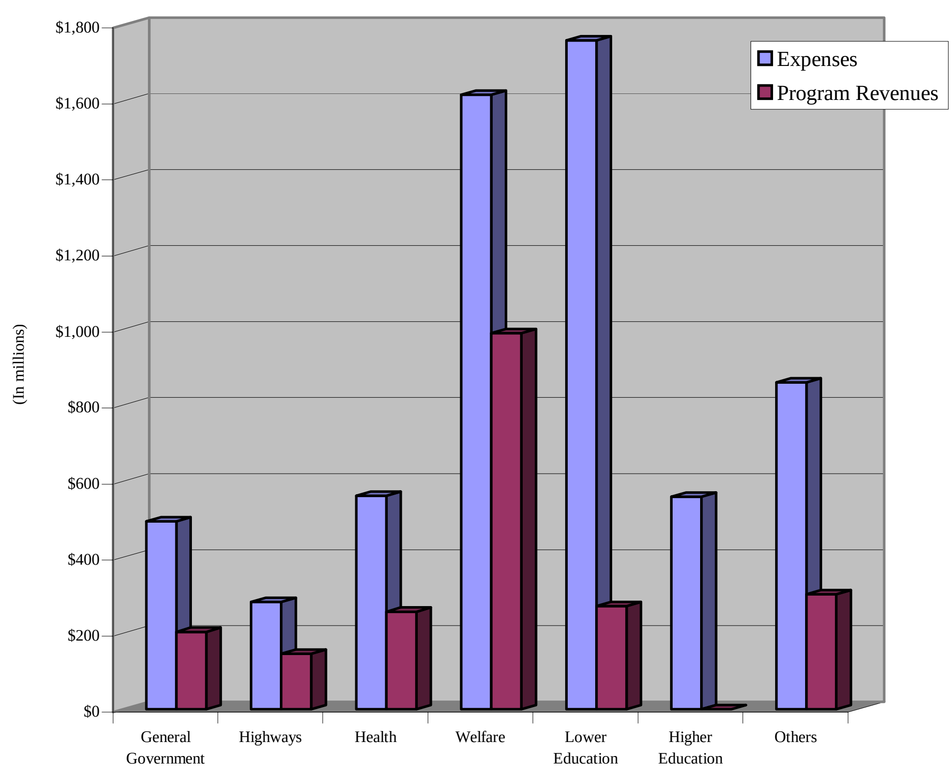
	Governmental Activities (Amounts in thousands)	
	2005	**2004**
General revenues:		
Taxes	$ 4,321,167	$ 3,745,883
Interest and investment income	64,236	41,903
Other	(2,847)	(6,180)
Total general revenues	4,382,556	3,781,606
Expenses, net of program revenues:		
General government	290,942	203,939
Public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

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

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

A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:

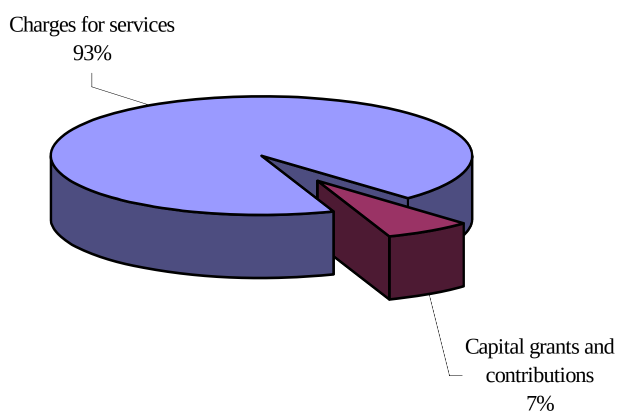
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2005



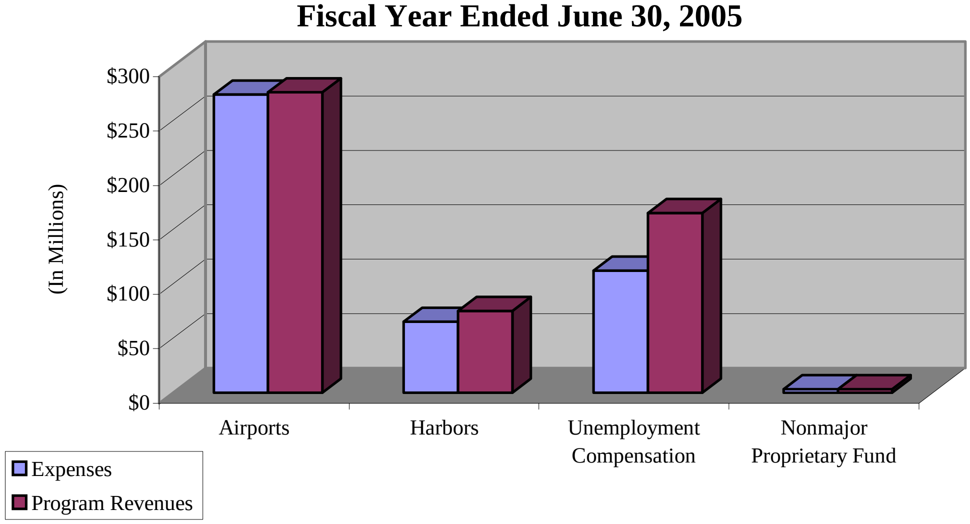
Business-Type Activities

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

Program Revenues By Source – Business-Type Activities
Fiscal Year Ended June 30, 2005



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



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

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

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

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

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

Business-Type Activities
(Amounts in thousands)

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

Financial Analysis of the State’s Individual Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the State’s Governmental Funds reported combined ending fund balances of $2.5 billion, an increase of $616.5 million over the prior fiscal year. Approximately $767.6 million, or 30.2%, of this total amount constitutes unreserved fund balance, which is available for spending at the State’s discretion in the coming fiscal year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use ($1.3 billion), (2) for notes and loan receivable, advances, and investments ($232.0 million), (3) for federal aid highway projects encumbrances ($179.6 million), or (4) for a variety of other restricted purposes ($51.4 million).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was $745.8 million, an increase of $344.4 million, or 85.8%, over the prior fiscal year, and the reserved fund balance was $219.8 million, an increase of $2.0 million, or 1.0%, over the prior fiscal year. As a measure of the General Fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20.4% of total General Fund expenditures, an increase of 8.5% over the prior fiscal year, while total fund balance represents 26.4% of that same amount, an increase of 8.0% over the prior fiscal year.

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

Proprietary Funds

The State’s Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net assets of $24.9 million, Harbors had an increase in net assets of $15.0 million, and the Unemployment

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

Fiduciary Funds

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

General Fund Budgetary Highlights

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

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

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounted to $11.1 billion (net of accumulated depreciation of $6.4 billion). This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2005, included the following:

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

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

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

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $5.5 billion. Of this amount, $4.3 billion comprises debt backed by the full faith and credit of the State and $1.2 billion (i.e., revenue bonds) is revenue bonded debt which is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt

June 30, 2005 and 2004

(Amounts in thousands)

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

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

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

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2005 was $231.5 million.

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

Economic Factors and Next Year's Budget

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

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

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

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2005

(Amounts in thousands)

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

See accompanying notes to basic financial statements.

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

STATE OF HAWAII

Statement of Activities

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary Government:								
Governmental Activities:								
General government	$ 494,174	$ 146,242	$ 56,990	$ —	$ (290,942)	$ —	$ (290,942)	
Public safety	248,685	32,317	38,778	—	(177,590)	—	(177,590)	
Highways	282,339	5,525	41,702	97,907	(137,205)	—	(137,205)	
Conservation of natural resources	79,545	26,086	33,078	—	(20,381)	—	(20,381)	
Health	561,155	81,607	174,159	—	(305,389)	—	(305,389)	
Welfare	1,615,721	1,757	987,684	—	(626,280)	—	(626,280)	
Lower education	1,758,596	32,225	239,205	—	(1,487,166)	—	(1,487,166)	
Higher education	559,379	—	—	—	(559,379)	—	(559,379)	
Other education	19,667	8	208	—	(19,451)	—	(19,451)	
Culture and recreation	72,920	7,430	3,006	—	(62,484)	—	(62,484)	
Urban redevelopment and housing	53,077	2	13,161	45,276	5,362	—	5,362	
Economic development and assistance	214,842	22,469	79,521	—	(112,852)	—	(112,852)	
Interest expense	169,738	—	—	—	(169,738)	—	(169,738)	
Total Governmental Activities	6,129,838	355,668	1,667,492	143,183	(3,963,495)	—	(3,963,495)	
Business-Type Activities:								
Airports	273,949	241,326	—	34,663	—	2,040	2,040	
Harbors	64,568	74,526	—	385	—	10,343	10,343	
Unemployment compensation	112,329	165,337	—	—	—	53,008	53,008	
Nonmajor proprietary fund	2,883	2,975	—	—	—	92	92	
Total Business-Type Activities	453,729	484,164	—	35,048	—	65,483	65,483	
Total Primary Government	$ 6,583,567	$ 839,832	$ 1,667,492	$ 178,231	(3,963,495)	65,483	(3,898,012)	
Component Units:								
University of Hawaii	$ 1,025,891	$ 213,921	$ 343,298	$ 87,334				$ (381,338)
Housing and Community Development Corporation of Hawaii	173,835	86,289	74,886	22,355				9,695
Hawaii Health Systems Corporation	356,936	320,921	2,695	15,274				(18,046)
Hawaii Hurricane Relief Fund	204	—	—	—				(204)
Total Component Units	$ 1,556,866	$ 621,131	$ 420,879	$ 124,963				(389,893)
General Revenues:								
Taxes:								
General excise tax					2,145,603	—	2,145,603	—
Net income tax – corporations and individuals					1,490,964	—	1,490,964	—
Public service companies tax					108,686	—	108,686	—
Transient accommodations tax					110,723	—	110,723	—
Tobacco and liquor taxes					128,982	—	128,982	—
Liquid fuel tax					82,733	—	82,733	—
Tax on premiums of insurance companies					84,822	—	84,822	—
Vehicle weight and registration tax					54,057	—	54,057	—
Rental motor/tour vehicle surcharge tax					41,886	—	41,886	—
Franchise tax					38,520	—	38,520	—
Others					34,191	—	34,191	—
Interest and investment income					64,236	27,784	92,020	26,503
Special item (note 15)					—	—	—	(3,527)
Extraordinary item (note 15)					—	—	—	(300)
Payments from the State					—	—	—	525,101
Other					(2,847)	(297)	(3,144)	(6,351)
Total General Revenues					4,382,556	27,487	4,410,043	541,426
Change in Net Assets					419,061	92,970	512,031	151,533
Net Assets – Beginning, as previously reported					5,921,641	2,372,441	8,294,082	1,990,149
Adjustments (note 1)					—	—	—	1,305
Net Assets – Beginning, as restated					5,921,641	2,372,441	8,294,082	1,991,454
Net Assets – Ending					$ 6,340,702	$ 2,465,411	$ 8,806,113	$ 2,142,987

See accompanying notes to basic financial statements.

STATE OF HAWAII

Governmental Funds
Balance Sheet

June 30, 2005

(Amounts in thousands)

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

See accompanying notes to basic financial statements.

STATE OF HAWAII

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2005

(Amounts in thousands)

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

See accompanying notes to basic financial statements.

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

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

See accompanying notes to basic financial statements.

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

Total Net Change in Fund Balances – Governmental Funds		$ 616,503
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	$ 443,086	
Depreciation expense (note 4)	(296,289)	
Excess of capital outlay over depreciation expense		146,797
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation and revenue bonds issued.		(1,491,445)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement	1,030,159	
Capital lease payments	3,145	
Claims and judgment payments	30,000	
Total long-term debt repayment		1,063,304
Revenue timing differences result in greater revenue in the government-wide financial statements.		31,000
Bond issue and deferred costs reflected as other financing uses in governmental funds and reported in the statement of net assets.		68,075
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Change in claims and judgments payable	(14,200)	
Change in accrued vacation payable	(15,373)	
Change in reserve for losses and loss adjustment costs	14,400	
		(15,173)
Change in Net Assets of Governmental Activities		$ 419,061

See accompanying notes to basic financial statements.

STATE OF HAWAII

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

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

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

See accompanying notes to basic financial statements.

Proprietary Funds
Statement of Net Assets

June 30, 2005
(Amounts in thousands)

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

See accompanying notes to basic financial statements.

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

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

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

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

See accompanying notes to basic financial statements.

Proprietary Funds
Statement of Cash Flows

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

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

(Continued)

Proprietary Funds
Statement of Cash Flows (Cont'd)

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

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

See accompanying notes to basic financial statements.

STATE OF HAWAII

Fiduciary Funds
Statement of Fiduciary Net Assets

June 30, 2005

(Amounts in thousands)

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

See accompanying notes to basic financial statements.

STATE OF HAWAII

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

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

See accompanying notes to basic financial statements.

Component Units
Statement of Net Assets

June 30, 2005
(Amounts in thousands)

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

See accompanying notes to basic financial statements.

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

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

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

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

See accompanying notes to basic financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Primary Government

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

Executive:

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

Judicial

Legislative

Discretely Presented Component Units

The Component Units column in the basic financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the Governor. The discretely presented Component Units are as follows:

University of Hawaii

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

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

Housing and Community Development Corporation of Hawaii

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

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

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

Hawaii Health Systems Corporation

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

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

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

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

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

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

The HHSC is comprised of the following state hospitals:

Hale Ho'ola Hamakua
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
Maui Memorial Medical Center
Yukio Okutsu Veterans Care Home

Hawaii Hurricane Relief Fund

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

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

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

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

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

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

Governmental Funds Financial Statements – The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

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

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

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

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

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

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

D. Fund Accounting

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

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

Governmental Fund Types

The State reports the following major Governmental Funds:

General Fund

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

Capital Projects Fund

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

The nonmajor Governmental Funds are comprised of the following:

Special Revenue Funds

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

Debt Service Fund

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

Proprietary Fund Type – Enterprise Funds

The major Enterprise Funds are comprised of the following:

Department of Transportation – Airports Division (Airports)

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

Department of Transportation – Harbors Division (Harbors)

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

Unemployment Compensation Fund

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

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

Fiduciary Fund Types

Private-Purpose Trust Fund

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

Agency Funds

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

Component Units

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

E. Cash and Short-Term Investments

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

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

F. Receivables and Payables

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

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

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

(Continued)

G. Investments

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

H. Inventories

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

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

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

I. Restricted Assets

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

J. Capital Assets

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

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

The State’s capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

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

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

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

K. Compensated Absences

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

L. Long-Term Obligations

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

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

(Continued)

M. Net Assets and Fund Equity

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

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

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

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

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

N. Nonexchange Transactions

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

O. Medicare and Medicaid Reimbursements

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

P. Risk Management

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

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

Q. Deferred Compensation Plan

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

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

R. Estimates and Restatements

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

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

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

(2) BUDGETING AND BUDGETARY CONTROL

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues, expenditures, and changes in fund balance – budget and actual (budgetary basis) – general fund are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2003 (Act 200, SLH of 2003), and as amended by the Supplemental Appropriations Act of 2004, and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

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

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

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

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2005, there were no expenditures in excess of appropriations in the individual funds.

(Continued)

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

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

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

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

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

(3) CASH AND INVESTMENTS

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

A. Cash

The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and short-term investments consist of cash, time certificates of deposit, and money market accounts. Cash and short-term investments also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2005 was $1,486,800,000 and $270,156,000, respectively, for the Primary Government and $317,904,000 for the Fiduciary Funds.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to $1,674,107,981 at June 30, 2005. Of that amount, $1,244,375,669 represent bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. The remaining bank balances of $429,732,312 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

(Continued)

B. Investments

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

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

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

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk: The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating. As of June 30, 2005, the State held short-term investments in student loan resource securities maintaining a Triple-A rating.

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

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

(4) CAPITAL ASSETS

For the fiscal year ended June 30, 2005, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

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

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

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

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

(5) GENERAL OBLIGATION BONDS PAYABLE

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

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

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

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

On June 15, 2005, the State issued $722,575,000 and $18,735,000 of General Obligation Refunding Bonds of 2005, Series DG and DH, with an interest rate of 5.00% to advance refund $753,930,000 of certain outstanding general obligation bonds previously issued. The net proceeds of $808,623,839 (including a premium of $70,844,362 and after payment of $3,530,523 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the government-wide financial statements.

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

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

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

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

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

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

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

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

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2005, $1,360,620,000 of bonds outstanding is considered defeased.

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

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

(6) REVENUE BONDS PAYABLE

A. Governmental Activities

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

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates of 5.00% and 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The net proceeds of $139,248,017 (including a premium of $15,000,441 and after payment of $1,068,439 in underwriting fees, insurance, and other issuance costs), along with an additional $1,401,015 from the debt service reserve account, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding highway revenue bonds. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the government-wide financial statements.

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

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

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

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

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

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

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

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

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

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as the DHHL and Highways defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2005, bonds outstanding considered defeased amounted to $133,600,000.

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

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

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

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

B. Business-Type Activities

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

Airports System Revenue Bonds

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

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

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

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

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2005, bonds outstanding considered defeased amounted to $74,030,000.

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

Airports Special Facility Revenue Bonds

Airports has four special facility lease agreements with Delta Airlines, Inc. in 1987, Continental Airlines, Inc. in November 1997 and July 2000, and Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $2,300,000, $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $38,860,000 at June 30, 2005.

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

$2,300,000 Issue

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

$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption at the option of Airports, upon the request of Continental Airlines, Inc., at prices ranging from $101 to $100, depending on the dates of redemption, or at $100 plus interest if the facilities are destroyed or damaged extensively.

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

$16,600,000 Issue

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

$6,600,000 Issue

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

(Continued)

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

Harbors Revenue Bonds

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

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

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

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

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

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

Harbors Special Facility Revenue Bonds

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

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

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

Debt service requirements to maturity on the business-type activities revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

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

C. Revenue Bonds Authorized But Unissued

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

D. Special Purpose Revenue Bonds

HRS Chapter 39A authorizes the State (with legislative approval) to issue special-purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2005 amounted to $1,481,501,000. At June 30, 2005, special purpose revenue bonds of $1,259,809,000 were authorized but unissued.

E. Improvement District Bonds

The Hawaii Community Development Authority is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding as of June 30, 2005 amounted to $900,000.

(7) CHANGES IN LONG-TERM LIABILITIES

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

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

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

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

(8) INTERFUND RECEIVABLES AND PAYABLES

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

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

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

(Continued)

(9) TRANSFERS

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

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

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

(10) LEASES

A. Lease Commitments

Governmental Activities

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

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

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

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

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

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

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

B. Lease Rentals

Airports – Airport-Airline Lease Agreement

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

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

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

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

Airports – Prepaid Airport Use Charge Fund

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

Airports – Aviation Fuel Tax

In May 1996, the Department of Taxation issued a tax information release which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to $3,434,444 for fiscal 2005.

Airports – System Rates and Charges

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

- Landing fees, net of aviation fuel tax credits, amounted to $35,463,143 for fiscal 2005 based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $26,465,067 for fiscal 2005. For fiscal 2004, the State waived the signatory airlines' underpayment of nonexclusive joint-use premise charges of $1,637,867 and transferred $414,657 of overpayments into the PAUCF in fiscal 2005. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing.

- Exclusive use premise charges amounted to $27,661,775 for fiscal 2005 and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $15,418,791 for fiscal 2005.

- Airports system support charges amounted to $655,759 for fiscal 2005. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system inter-island support charges for nonsignatory airlines are set at 32% of Airports system support charges for overseas flights.

Airports – Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2005 was approximately $51,740,336.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 44% of total concession fees revenues for the fiscal year ended June 30, 2005.

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

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

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

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

Harbors – Aloha Tower Complex Development

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

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

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

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

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

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Harbors – Leasing Operations

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

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

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

C. Net Investment in Direct Financing Leases

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2005, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

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

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

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

(11) RETIREMENT BENEFITS

A. Plan Description

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

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

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

B. Funding Policy

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

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

C. Post-Retirement Health Care and Life Insurance Benefits

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

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

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

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

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

(12) COMMITMENTS AND CONTINGENCIES

A. Commitments

General Obligation Bonds

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

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

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2005, accumulated sick leave was approximately $1,258,181,000.

Intergovernmental Expenditures

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

Guarantees of Indebtedness

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

B. Proprietary Fund Type – Enterprise Funds

Construction and Service Contracts

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

C. Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2005, 2004, and 2003 approximated $1,200,000, $6,200,000, and $14,000,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately $1.3 billion over a 25-year period. Through June 30, 2005, the State has received approximately $38,008,000. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. As of June 30, 2005, the State expects to receive $18,700,000 for the first six months of 2005.

Office of Hawaiian Affairs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the HHA), the executive director of the HHA, the board members of the HHA, and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (First Circuit)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands which were transferred to the HHA for its use to develop, construct, and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA v. State of Hawaii*, Civil No. 94-0205-01 (First Circuit). The repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA v. State* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The State intends to vigorously defend against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any. Accordingly, no estimate of loss has been made in the accompanying basic financial statements. However, resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Education and Department of Health

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

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

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

Department of Hawaiian Home Lands

Hawaiian Home Lands Trust Fund

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

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

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

Transfer of Property

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

Individual Claims

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

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

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

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

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

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

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

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

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

(13) RISK MANAGEMENT

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

A. Property Insurance

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

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

B. General Liability (including Torts)

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

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

C. Medical Insurance

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

D. Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

E. Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2005 and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30 (amounts expressed in thousands):

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

(14) SPECIAL AND EXTRAORDINARY ITEMS

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

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

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

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

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

Administrative Support – accounts for programs of certain administrative agencies.

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

Debt Service Fund

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

STATE OF HAWAII

Nonmajor Governmental Funds
Combining Balance Sheet

June 30, 2005

(Amounts in thousands)

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

See accompanying independent auditors' report.

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

STATE OF HAWAII

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

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

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

See accompanying independent auditors' report.

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

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

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

See accompanying independent auditors’ report.

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

(Continued)

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

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

See accompanying independent auditors' report.

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

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

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

See accompanying independent auditors' report.

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

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

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

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

See accompanying independent auditors' report.

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

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

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

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

See accompanying independent auditors' report.

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

STATE OF HAWAII

Nonmajor Special Revenue Funds
Reconciliation of the Budgetary to GAAP Basis

June 30, 2005

(Amounts in thousands)

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

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

See accompanying independent auditors' report.

STATE OF HAWAII

Fiduciary Funds
Combining Statement of Fiduciary Net Assets – Agency Funds

June 30, 2005

(Amounts in thousands)

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

See accompanying independent auditors' report.

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

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

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

See accompanying independent auditors' report.

PART III: STATISTICAL SECTION

STATE OF HAWAII

Schedule of Government-Wide Revenues

Last Three Fiscal Years
(Amounts in thousands)

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

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Government-Wide Expenses by Function

Last Three Fiscal Years

(Amounts in thousands)

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

See accompanying independent auditors’ report.

STATE OF HAWAII

Schedule of Revenues by Source – All Governmental Fund Types

Last Ten Fiscal Years

(Amounts in millions)

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

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

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Expenditures by Function – All Governmental Fund Types

Last Ten Fiscal Years

(Amounts in millions)

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

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Ratio of Net General Obligation Bonded Debt Per Capita

Last Ten Fiscal Years

(Amounts in thousands except ratio data)

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

(1) Source: Hawaii State Department of Business, Economic Development and Tourism.
(2) Source: Hawaii State Department of Accounting and General Services, Accounting 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
2005	$ 128,378	$ 193,570	$ 321,948	$ 6,399,696	5.03%
2004	139,227	162,288	301,515	5,972,173	5.05
2003	242,378	151,945	394,323	5,971,576	6.60
2002	233,117	129,483	362,600	5,684,875	6.38
2001	210,518	190,993	401,511	4,703,420	8.54
2000	193,075	190,497	383,572	4,572,956	8.39
1999	202,836	186,762	389,598	4,641,159	8.39
1998	231,756	174,577	406,333	4,485,334	9.06
1997	268,683	156,890	425,573	4,721,851	9.01
1996	260,156	155,888	416,044	4,504,746	9.24

See accompanying independent auditors’ report.

STATE OF HAWAII

Schedule of Revenue Bond Coverage*

Last Ten Fiscal Years

(Amounts in thousands except coverage data)

Airports

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

Harbors

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

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

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, 2005

(Amounts in thousands)

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

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

See accompanying independent auditors’ report.

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

For the Fiscal Year Ended June 30, 2005

(Amounts in thousands)

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

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Demographic Statistics

Last Ten Years

(Population amounts expressed in thousands)

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

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

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

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Bank Deposits

Last Ten Calendar Years

(Amounts in millions)

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

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

N/A Not available for the calendar year 2005.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Ten Largest Private Employers

June 30, 2005

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

Listed alphabetically.

Source: Hawaii Business, August 2005.

See accompanying independent auditors’ report.

STATE OF HAWAII

Schedule of Miscellaneous Statistics

June 30, 2005

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

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

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

See accompanying independent auditors' report.