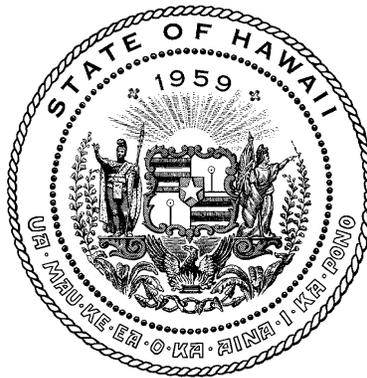


STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

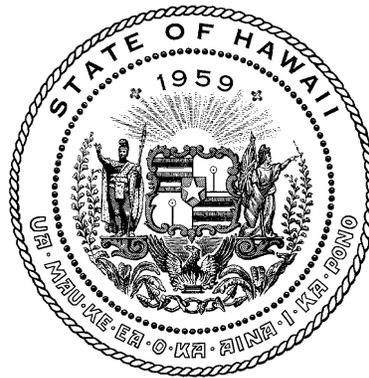


RUSS K. SAITO
COMPTROLLER

STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2002



PREPARED BY
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

RUSS K. SAITO
COMPTROLLER

STATE OF HAWAII

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PART I: INTRODUCTORY SECTION

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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2002



Russ K. Saito
Comptroller

Governor
Director of Finance
Director of Taxation
Comptroller

Linda Lingle
Georgina Kawamura
Kurt Kawafuchi
Russ K. Saito

Notes:

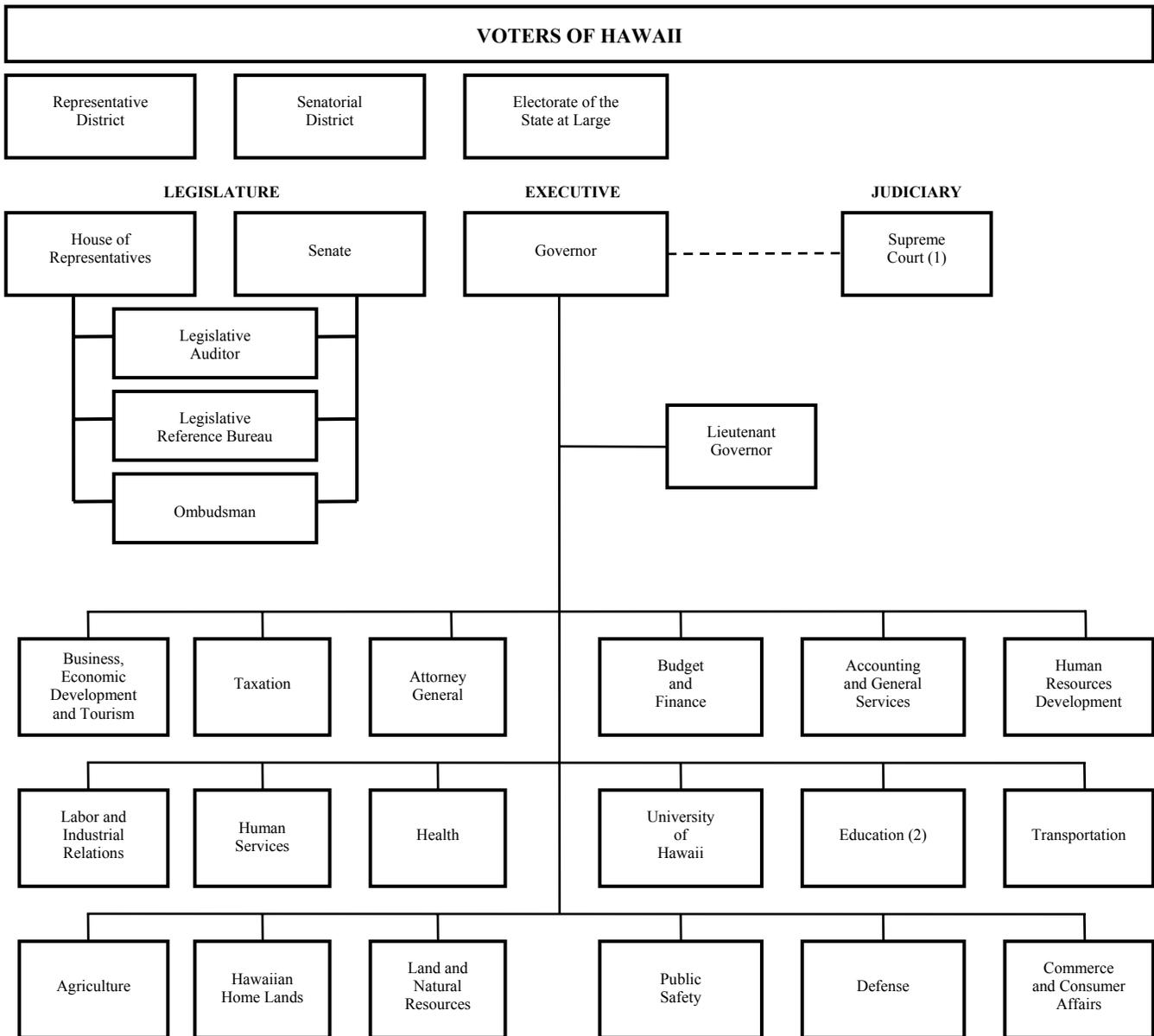
The Director of Finance is also department head of the Department of Budget and Finance.

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

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

STATE OF HAWAII
Organizational Chart

June 30, 2002



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

(2) Board of Education elected.



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

March 31, 2003

To the Honorable Governor of the State of Hawaii
To the Honorable Members of the Twenty-Second 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, 2002. 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.

This year's CAFR has been prepared in conformance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. These new GASB Statements make the most significant change in governmental financial reporting in over twenty years. They require the State's management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (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 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, MD&A, basic financial statements, notes to the basic financial statements and supplementary information. The statistical section includes selected financial and demographic information.

THE REPORTING ENTITY AND ITS SERVICES

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

In accordance with GASB Statement No.14, *The Financial Reporting Entity*, this report includes the various funds comprising the State, including all entities that are accountable to the State. The Employees' Retirement System of the State of Hawaii, which is administered on behalf of public employees for both the state and county governments, and the Office of Hawaiian Affairs, which exists for the betterment of the conditions of native Hawaiians, are not included in the State's basic financial statements because those agencies, based on the fiscal independence and/or separate legal entity status criteria of GASB Statement No.14, are not accountable to the State.

FACTORS AFFECTING FINANCIAL CONDITION

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

State of the Economy

Overview

Hawaii's economy is recovering from its tribulations of the past year. The robust levels of employment and visitor arrivals experienced in 2000 and early 2001 have not materialized in 2002. Hawaii is improving in terms of more construction, increase in tax revenues, and more visitor arrivals compared to the growth rates experienced during the early part of 2001. However, the annual growth rates for labor force, civilian employment, wage and salary jobs, and income tax collections are down from comparable 2001 levels. Hawaii's growth prospects are hampered by the uninspired performance of the U.S. economy and the continuing struggles of the Japan economy.

Labor

Civilian employment was 0.9% lower than the average for 2001. The labor force declined by 1.0% and the unemployment rate decreased 0.1 percentage points to 4.4%. The total number of wage and salary jobs decreased by 0.9% over the first 10 months of 2002.

By industry, the September 11, 2001 terrorist attack on New York City led to a decline in tourism for Hawaii and had a significant effect on transportation, retail trade and hotel industries. All three have recovered late in 2002, but not to the levels of 2001, as there were 10,000 fewer jobs in 2002 than in 2001. Several industries did increase their hiring in 2002. Jobs with the state government increased by 3,000 jobs, followed by increases in construction, health services, business services, finance, insurance and real estate, and agriculture.

Taxes

Another indicator of economic activity, General Fund tax revenues, decreased 5.0% for the first ten months of 2002. General excise and use tax collections, which are the largest source of revenue and a good measure of economic activity, showed a 0.8% decline for the same period. Additionally, transient accommodations tax revenue decreased by 11.1%, showing the effect of reduced visitor demand.

Individual income tax revenues also decreased 6.2%. Some of the decrease can be attributed to the increased filing thresholds for withholding, excise and use, transient accommodations, and rental motor vehicle and tour vehicle surcharge tax returns granted by new legislation. This new legislation allows 38,000 excise and use taxpayers, 8,000 withholding taxpayers, and 2,700 transient accommodations taxpayers to file less frequently.

Personal Income

Hawaii's personal income grew 3.9% in the second quarter of 2002 relative to the year-earlier period according to data provided by the U.S. Bureau of Economic Analysis. Most of the increase in personal income came from transfer payments and other labor income followed by wages and salaries, proprietors' income, dividends, interest, and rent.

By industry, there were quarterly increases in earnings for most industries. However, manufacturing, transportation, public utilities, and retail trade showed a decrease.

Prices

Inflation in Hawaii still remains relatively low. During the first half of 2002, the Honolulu Consumer Price Index for urban consumers (CPI-U) increased by 1.1%. This is just slightly less than the inflation rate for the nation as a whole. In comparison, the CPI-U for the U.S. increased at a 1.3% annual rate over the same period. For Honolulu, the largest increases in the components of the index were seen in apparel and upkeep, which increased 6.5% and other goods and services which were up 4.0% during the period. The change in the price of housing, which accounts for about 42% of the Honolulu CPI-U, remains relatively low with a 1.0% increase.

Recent Developments In Hawaii's Major Industries

Visitor Industry

Visitor numbers through the first ten months of 2002 declined by 2.2% as compared to the same period in 2001. During this period, international arrivals (visitors on flights originating outside the U.S.) decreased by 10.3%. This was partly offset by an increase of 2.0% for visitor arrivals on domestic flights (flights originating in the U.S.) for the same period in 2001.

The number of visitor days (visitor arrivals multiplied by average length of stay) increased by 0.4% from the first ten months of 2002 compared to the same period in 2001. The increase in visitor days was due to an increase in visitor days for visitors on domestic and international flights. The decrease in visitor arrivals also led to a decrease in hotel occupancy rates. For the first ten months of 2002, the 70.2% hotel occupancy rate was 3 percentage points lower than the rate experienced in the first ten months of 2001.

Construction

The general excise tax base for contracting, an indicator of construction output, increased by 15.4% during the first nine months of 2002 over the same period in 2001. The increase in construction output is also reflected in the 3.4% increase in the number of construction wage and salary jobs for the first ten months of 2002 over the same period in 2001.

The value of private building authorizations, an indicator of future construction, increased by 11.5% during the first nine months of 2002 compared to the same period in 2001. Government contracts awarded for the first nine months of 2002 were up by 37.1% over the same period in 2001.

Agriculture

The agriculture sector declined in the first nine months of 2002 compared to the same period a year earlier. Agriculture wage and salary jobs for 2002 have remained above the 8,000 worker level as a result of increased hiring by diversified agriculture operations.

Outlook for Hawaii's Economy

The outlook for Hawaii's economy remains bright. Hawaii's recovery is expected to be a function of the recovery of its visitor markets and of U. S. and international economic performances. The Blue Chip Economic Indicators (Blue Chip) (a consensus of 50 top U.S. economic forecasters) reported that the expectation for real economic growth in 2002 had risen to 2.4%. For 2003, Blue Chip expects real gross domestic product to drop by 0.2%.

Based on current trends, state economists at the Department of Business, Economic Development and Tourism (DBEDT) expect that the visitor industry will show a robust growth of 3.5% this year and 6.3% in 2003. Visitor expenditures are forecast to increase 3.4% from 2001. Real Personal Income is forecast to show a 1.9% increase while real Gross State Product (GSP) should expand at a 1.7% annual rate in 2002. Wage and salary jobs should decrease 0.2% in 2002 from 2001 totals and increase 1.4% in 2003.

DBEDT expects inflation, as measured by changes in the Honolulu CPI, to grow at a rate of 1.5% in 2002 and 2003. The GSP deflator, which is estimated based on the Blue Chip U.S. Gross Domestic Product projection, is forecast to reach 2.1% in 2003 and then decline.

The forecast expects all sectors of the State's economy to attain pre-September 11, 2001 levels or better by the second half of 2003.

MAJOR INITIATIVES

Major Capital Improvement Projects

Major capital improvement projects, which received funding in fiscal 2002, focused on health, education and general government. They include \$300 million for a university health and wellness center, including a new medical school facility to be situated on the island of Oahu; \$29 million for additional increments for Kapolei High School and Mililani Mauka II Elementary School; and \$52 million for various other school and university projects.

Prescription Drugs

In fiscal 2002, the Governor signed into law a bill to establish the Hawaii Rx Program to reduce prescription drug costs for all state residents who choose to participate in this pharmaceutical discount program under which the State obtains manufacturers' rebates on drugs that are offered at discounted prices to program participants. It also provides reimbursement to participating pharmacists for the discounts of prescription drugs provided to program participants.

Bottle Recycling

On June 25, 2002, legislation which addressed the twin problems of litter and decreasing landfill availability was signed into law by the Governor. The law established a deposit beverage container fee to be imposed on specified deposit beverage containers to increase participation and recycling rates for those specified deposit beverage containers, provide a connection between manufacturing decisions and recycling program management, and reduce litter. The implementation of this fee program will protect and preserve environmental resources and reduce economic costs to residents and businesses within the State.

Cap Gasoline Prices

Legislation was enacted that authorizes the State to cap retail and wholesale gasoline prices which will ensure lower gasoline prices for Hawaii's consumers who continue to pay a large premium at the pump. West Coast gasoline prices will be the basis for determining the baseline prices of gasoline.

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 2001, as amended, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes and other specific appropriations acts in various Session Laws of Hawaii (SLH). 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, 2002. To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

CASH MANAGEMENT

During fiscal 2002, the State Treasury earned \$33.6 million for the General Fund by investing its temporary cash surpluses, a decrease of \$16.5 million from the amount earned in the previous fiscal year. The fiscal 2002 earnings represent an average investment yield of 3.3%, down from the 5.1% of the previous fiscal year.

RISK MANAGEMENT

The State obtains third-party coverage for property losses in excess of \$250,000 per occurrence. The property loss limit is \$25 million per occurrence, except for earthquake and flood with a limit of \$10 million per occurrence. The State also acquires general liability insurance, medical insurance, faithful performance of duty and depositors' forgery insurance for state employees, but is self-insured for other perils including workers' compensation and automobile losses. Expenditures for workers' compensation, automobile losses and general liability (for amounts not covered by insurance) are appropriated annually.

EMPLOYEE UNION CONTRACTS

The State Constitution grants public employees in Hawaii the right to organize for the purpose of collective bargaining as provided by law. There are thirteen bargaining units, of which twelve bargaining units have state employees as members. The twelve 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, 2002. 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, 2001. This was the thirteenth consecutive year that the State has received this prestigious award.

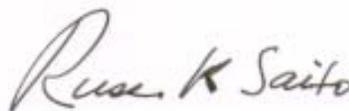
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States 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
Comptroller, State of Hawaii

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
Hawaii

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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.



William Patrick Pate
President

Jeffrey L. Essler
Executive Director

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PART II: FINANCIAL SECTION



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

Independent Auditors' Report

Comptroller
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2002, 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 90% and 64%, respectively, of the assets and revenues of the business-type activities, and the University of Hawaii, the Housing and Community Development Corporation of Hawaii, and the Hawaii Health Systems Corporation, which represent 93% and 99%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the University of Hawaii, the Housing and Community Development Corporation of Hawaii and the Hawaii Health Systems Corporations, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.



As described in note 2 to the basic financial statements, the State of Hawaii adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management’s discussion and analysis on pages 14 through 29 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

March 25, 2003

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2002

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, 2002. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3 – 8 of this report.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements comprise 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.

The State adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective July 1, 2001. Accordingly, comparative data for the fiscal year ended June 30, 2001 are not available for a comprehensive discussion of the change in net assets. However, comparative analysis of government-wide data will be presented in the financial statements in future years.

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 earned but 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

Management's Discussion and Analysis

June 30, 2002

Department of Transportation – Airports Division (Airports), Department of Transportation – Harbors Division (Harbors), 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 – 35 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 Fund 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 Fund balance sheet and the Governmental Fund 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.

Management's Discussion and Analysis

June 30, 2002

Information is presented separately in the Governmental Fund balance sheet and in the Governmental Fund 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 the 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 in the supplementary information section of this report.

The basic Governmental Fund financial statements can be found on pages 36 – 41 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 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 Fund financial statements provide separate information for Airports and Harbors, 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 Fund financial statements. Individual fund data for each of these nonmajor proprietary funds, is provided in the form of combining statements in the supplementary information section of this report.

The basic Proprietary Fund financial statements can be found on pages 42 – 46 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 Fund financial statements can be found on pages 47 – 49 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 the basic financial statements can be found on pages 53 – 110 of this report.

Management's Discussion and Analysis

June 30, 2002

Other Supplementary Information

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

The financial highlights and analysis which follow focus 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. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the State exceeded its liabilities at June 30, 2002 by \$9,033,533 (net assets). Of this amount, \$959,177 (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors.
- The State's total net assets decreased by \$305,431 during the current fiscal year.
- At June 30, 2002, the State's Governmental Funds reported combined ending fund balances of \$1,950,866, an increase of \$84,197 from the prior fiscal year. Of this amount, \$379,373 or 19.4% of total fund balances are available for spending at the State's discretion (unreserved fund balance).
- At June 30, 2002, the unreserved fund balance for the General Fund was \$348,777 or 10.8% of total General Fund expenditures.
- The State's long-term liabilities increased by \$299,510 (6%) during the current fiscal year. The key factor in the increase was the issuance of \$550,000 in general obligation bonds for the purpose of financing public improvement projects.

Government-Wide Financial Analysis

This is the first year that the State has presented its basic financial statements under the new reporting model required by GASB Statement No. 34. Because this reporting model changes significantly the presentation of financial data, the State has not restated prior fiscal years for the purpose of providing comparative information for the MD&A. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2002

Net Assets
June 30, 2002
(Amounts in thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current and other assets	\$ 2,196,787	\$ 1,435,002	\$ 3,631,789
Capital assets	9,270,131	2,093,341	11,363,472
Total assets	<u>11,466,918</u>	<u>3,528,343</u>	<u>14,995,261</u>
Liabilities:			
Long-term liabilities	4,451,879	1,111,406	5,563,285
Other liabilities	296,521	101,922	398,443
Total liabilities	<u>4,748,400</u>	<u>1,213,328</u>	<u>5,961,728</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	5,675,825	1,095,297	6,771,122
Restricted	1,128,075	175,159	1,303,234
Unrestricted	(85,382)	1,044,559	959,177
Total net assets	<u>\$ 6,718,518</u>	<u>\$ 2,315,015</u>	<u>\$ 9,033,533</u>

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2002

Analysis of Net Assets

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by \$9,033,533 at the end of the current fiscal year.

By far the largest portion of the State's net assets (\$6,771,122 or 75.0%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets (\$1,303,234 or 14.4%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets (\$959,177 or 10.6%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2002, the State is able to report positive balances in all three categories of net assets for the government as a whole. The negative balance in unrestricted net assets (\$85,382) for the State's governmental activities is attributable to recording additional long-term liabilities in the government-wide financial statements as required by GASB Statement No. 34.

Changes in Net Assets

The State's net assets decreased by \$305,431 or 3.3% during the fiscal year ended June 30, 2002. Approximately 57.6% of the State's total revenues came from taxes, while 27.7% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 10.7% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, and transportation (highways, airports, and harbors).

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2002

Changes in Net Assets

For the Fiscal Year Ended June 30, 2002

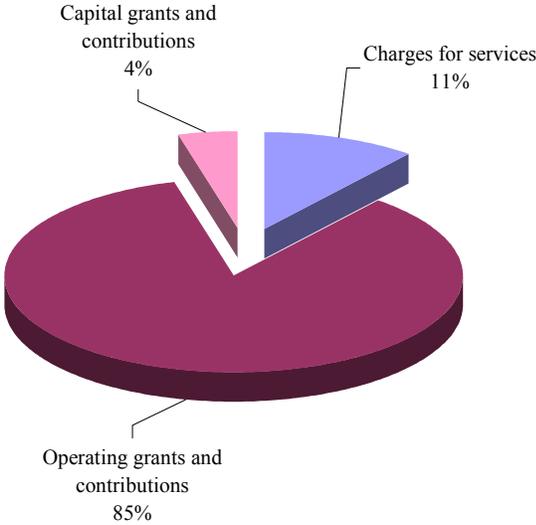
(Amounts in thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 196,412	\$ 416,227	\$ 612,639
Operating grants and contributions	1,480,902	181	1,481,083
Capital grants and contributions	75,716	23,918	99,634
General revenues:			
Taxes	3,285,733	—	3,285,733
Interest and investment income	70,911	60,002	130,913
Other	93,718	—	93,718
Total	<u>5,203,392</u>	<u>500,328</u>	<u>5,703,720</u>
Expenses:			
General government	469,438	—	469,438
Public safety	247,205	—	247,205
Highways	346,241	—	346,241
Conservation of natural resources	30,220	—	30,220
Health	498,068	—	498,068
Welfare	1,335,207	—	1,335,207
Lower education	1,488,825	—	1,488,825
Higher education	455,037	—	455,037
Other education	88,605	—	88,605
Culture and recreation	69,354	—	69,354
Urban redevelopment and housing	1,236	—	1,236
Economic development and assistance	267,451	—	267,451
Interest expense	142,118	—	142,118
Airports	—	279,654	279,654
Harbors	—	46,315	46,315
Health and unemployment	—	214,470	214,470
Total	<u>5,439,005</u>	<u>540,439</u>	<u>5,979,444</u>
Decrease in net assets before transfers	(235,613)	(40,111)	(275,724)
Transfers	(46,810)	17,103	(29,707)
Change in net assets	(282,423)	(23,008)	(305,431)
Net assets – July 1, 2001	<u>7,000,941</u>	<u>2,338,023</u>	<u>9,338,964</u>
Net assets – June 30, 2002	<u>\$ 6,718,518</u>	<u>\$ 2,315,015</u>	<u>\$ 9,033,533</u>

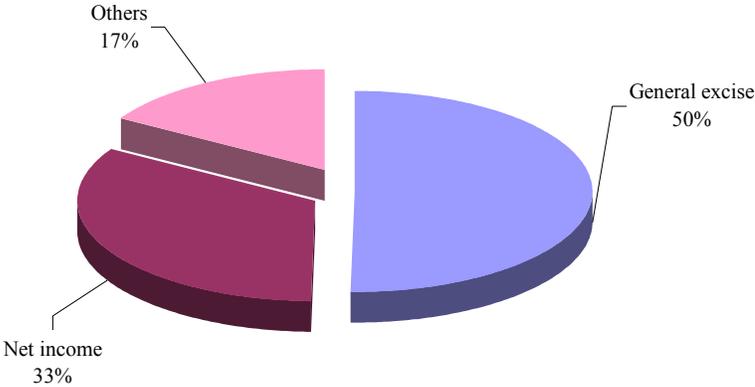
Management's Discussion and Analysis

June 30, 2002

Program Revenues By Source – Governmental Activities



Tax Revenues By Source – Governmental Activities



Management’s Discussion and Analysis

June 30, 2002

Analysis of Changes in Net Assets

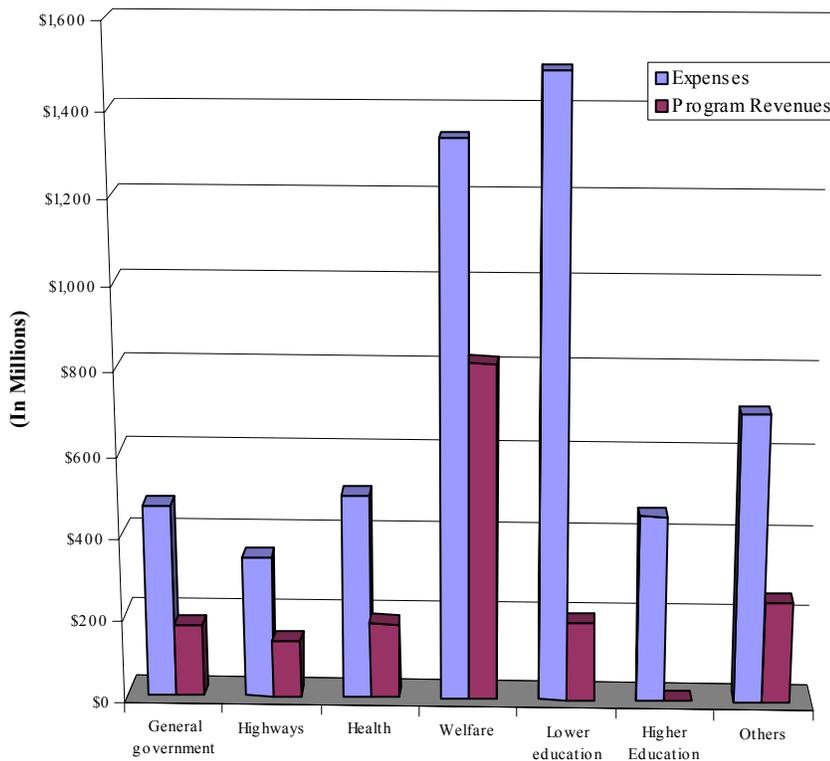
The State’s net assets decreased by \$305,431 during the current fiscal year. This decrease is explained in the governmental and business-type activities discussion below, and is primarily a result of a decrease in revenues.

Governmental Activities

Governmental activities decreased the State’s net assets by \$282,423. Key elements of this decrease are a result of lower tax revenues and higher expenses for higher and lower education, welfare, health, and public safety.

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:

Expenses and Program Revenues – Governmental Activities



STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2002

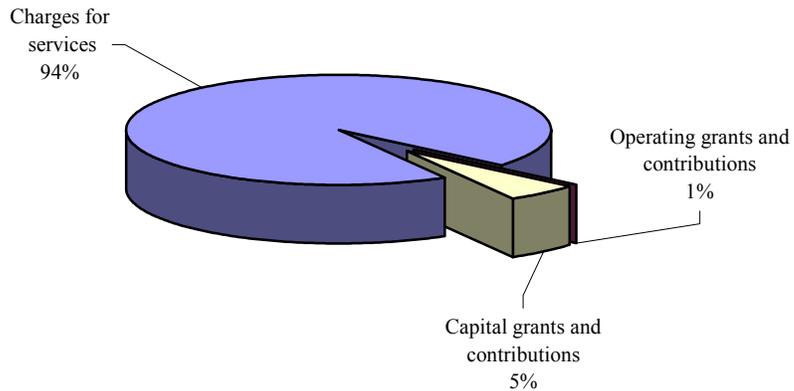
	<u>Governmental Activities</u>
Expenses net of program revenues:	
General government	\$ 293,343
Public safety	194,571
Highways	209,433
Conservation of natural resources	(28,289)
Health	315,281
Welfare	518,675
Lower education	1,295,346
Higher education	455,037
Other education	85,605
Culture and recreation	59,269
Urban development and housing	(8,748)
Economic development and assistance	154,334
Interest expense	142,118
	<hr/>
Total governmental activities program expenses net of revenues	3,685,975
	<hr/>
General revenues:	
Taxes	3,285,733
Interest and investment income	70,911
Transfers	(46,810)
Other	93,718
	<hr/>
Total general revenues	3,403,552
	<hr/>
Decrease in governmental activities net assets	\$ 282,423
	<hr/> <hr/>

Management's Discussion and Analysis

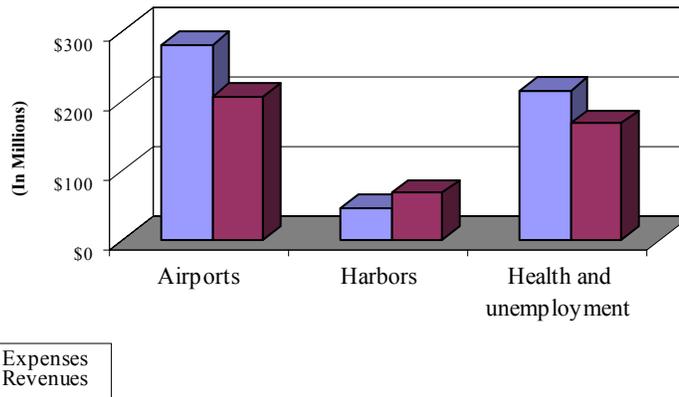
June 30, 2002

Business-Type Activities

Revenues By Source – Business-Type Activities



Expense and Program Revenues – Business-Type Activities



Business-type activities decreased the State's net assets by \$23,008 or 1.0%, during the current fiscal year. Key elements of this decrease are as follows.

- Operating revenues of business-type activities were significantly affected by the events of September 11, 2001. Most of the revenues generated by Airports are directly related to the number of passengers and aircraft operations in and out of the State.

STATE OF HAWAII

Management’s Discussion and Analysis

June 30, 2002

- Airport landing fees and Airport system support charges of \$19,200 and minimum annual guarantee rents of \$26,100 were waived by the Governor based on Act 15 enacted by the State Legislature in its Third Special Session of 2001. The purpose of this law was to provide immediate relief to facilitate continuity of business activities and services, minimize employee layoffs, and prevent endangerment of public health, safety, or welfare, in the wake of the September 11, 2001 terrorist attack. The waiver of these fees contributed to the decrease in business-type activities net assets for fiscal 2002.

Key elements of the State’s business-type activities for the fiscal year ended June 30, 2002, are as follows:

	<u>Program Revenues</u>			<u>Expenses</u>	<u>Expenses Net of Program Revenues</u>
	<u>Charges for Services</u>	<u>Operating/ Capital Grants and Contributions</u>	<u>Total</u>		
Airports	\$ 182,895	\$ 22,986	\$ 205,881	\$ 279,654	\$ 73,773
Harbors	66,166	1,113	67,279	46,315	(20,964)
Health and unemployment	167,166	—	167,166	214,470	47,304
Total	<u>\$ 416,227</u>	<u>\$ 24,099</u>	<u>\$ 440,326</u>	<u>\$ 540,439</u>	<u>\$ 100,113</u>

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 \$1,950,866, an increase of \$84,197 in comparison with the prior fiscal year. Approximately \$379,373 or 19.4% 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 (\$1,180,075), (2) for notes and loan receivables, advances and investments (\$242,577), (3) for federal aid highway project encumbrances (\$120,191), or (4) for a variety of other restricted purposes (\$28,650).

Management's Discussion and Analysis

June 30, 2002

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 \$348,777, while total fund balance reached \$578,729. 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 10.8% of total General Fund expenditures, while total fund balance represents 18.0% of that same amount.

The fund balance of the State's General Fund decreased by \$226,691 during the current fiscal year due primarily to lower tax revenues and an increase in expenditures for higher and lower education, health, and public safety. The fund balance of the State's Capital Projects Fund increased by \$197,578 during the current fiscal year. The increase was due primarily to the issuance of \$550,000 general obligation bonds for financing public improvement projects. The fund balance of the State's other nonmajor Governmental Funds increased by \$113,310 during the current fiscal year. The increase was due to an increase in federal assistance payments under federal and state programs.

Proprietary Funds

The State's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, Airports had a decrease in net assets of \$23,092 and Harbors had an increase in net assets of \$26,747. Other factors concerning the finances of Airports and Harbors 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 \$113,814, representing an increase of \$22,589 in total net assets since June 30, 2001.

General Fund Budgetary Highlights

The General Fund revenue shortfall was \$87,300 or 2.5% less than the final budget. The shortfall was primarily attributed to lower general excise and net income taxes of \$55,800 and \$46,800, respectively.

The General Fund expenditure budget increased by \$171,600 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: \$110,800 in employees' salary adjustments; \$10,100 to the Department of Budget and Finance for social security and medicare expenses of the Public Employees' Retirement Program; \$14,200 for the State Legislature; \$11,000 for claims and settlements against the State; and \$5,000 of emergency appropriation to the Hawaii Health Systems Corporation. The difference between the final budget and actual expenditures on a budgetary basis was \$102,600. The positive variance in Lower Education resulted when the Department of Education carried over \$33,700 of unencumbered appropriations into the next fiscal year. By law, the Department of Education is allowed to carry over up to 5% of its unencumbered appropriations in the School-Based Budgeting and Comprehensive School Support Services programs. The positive variance in General Government is primarily attributed to \$9,900 of amounts appropriated for collective bargaining cost items, \$7,500 of the amount appropriated for debt service payments, and \$7,800 of appropriations made to the State Legislature that can be carried over to the next fiscal year.

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2002

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, 2002 amounted to \$11,363,472 (net of accumulated depreciation of \$4,948,152). 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, 2002, included the following:

- \$300 million for a university health and wellness center.
- \$29 million for additional increments for Kopolei High School and Mililani Mauka II Elementary School.
- \$52 million for various other school and university projects.

Additional information on the State's capital assets can be found in note 5 of the notes to the basic financial statements.

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of \$4,972,999. Of this amount, \$3,568,956 comprises debt backed by the full faith and credit of the State and \$1,404,043 (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, 2002 and 2001

(Amount in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>
General obligation bonds	\$ 3,568,001	\$ 3,225,635	\$ 955	\$ 1,799	\$ 3,568,956	\$ 3,227,434
Revenue bonds	297,995	231,295	1,106,048	1,160,872	1,404,043	1,392,167
Total	<u>\$ 3,865,996</u>	<u>\$ 3,456,930</u>	<u>\$ 1,107,003</u>	<u>\$ 1,162,671</u>	<u>\$ 4,972,999</u>	<u>\$ 4,619,601</u>

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2002

The State's total debt increased by \$353,398 (8%) during the current fiscal year. The key factor in this increase was the issuance of \$550,000 in general obligation bonds for financing public improvement projects. During the current fiscal year, the Department of Transportation – Highways Division (Highways) issued \$70,000 of revenue bonds, and Harbors issued \$24,400 in revenue bonds.

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

The State Constitution limits the amount of general obligation bonds which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2002 was \$134,650.

Additional information on the State's long-term debt can be found in notes 7, 8, and 9 of the notes to the basic financial statements.

Economic Factors and Next Year's Budget

The unemployment rate for the State is currently 4.4%, which is a decrease from a rate of 0.1% a year ago. This is the lowest unemployment rate since 1993.

General Fund tax revenues decreased 5.0% for the first ten months of 2002. General excise and use tax collections, which is the largest source of revenue and a good measure of economic activity, showed a 0.8% decrease for the same period. Additionally, transient accommodations tax revenue decreased by 11.1%, showing the negative impact of declining visitor demand.

Inflation in Hawaii is increasing but still remains relatively low. Between the first half of 2001 and the first half of 2002, the Honolulu Consumer Price Index (CPI) for urban consumers increased by 1.5%. In comparison, the CPI for the U.S. increased at a 1.3% annual rate over the same period.

The Council of Revenues in March 2003 revised the revenue growth rate from 6.1% to 4.3% resulting in a loss of \$51,600 in anticipated general fund revenues. In anticipation of reduced revenues, the Governor imposed in late December 2002, a hiring freeze of non-essential vacant positions and a 5% reduction to discretionary funds for executive departments that realized approximately \$25,000 in savings. General funded budget reductions of about \$25,000 have also been submitted to amend the next biennium budget currently before the Legislature. Debt restructuring, transferring moneys from Special Revenue Funds, and restricting the amount of tax credits are other proposals being considered to make up the anticipated decline in revenues.

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2002

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

Statement of Net Assets

June 30, 2002

(Amounts in thousands)

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Cash and short-term investments (note 4)	\$ 220,393	\$ 824,949	\$ 1,045,342	\$ 351,177
Receivables:				
Taxes	295,701	31,000	326,701	—
Accounts and accrued interest, net	—	39,411	39,411	138,644
Notes, loans, and mortgages, net	248,272	—	248,272	107,213
Federal government	51,000	6,209	57,209	7,573
Other, net	4,597	298	4,895	4,393
Internal balances (note 10)	1,232	(1,232)	—	—
Due from Component Units (note 10)	6,000	—	6,000	—
Due from Primary Government (note 10)	—	—	—	11,742
Investments (note 4)	1,369,591	147,277	1,516,868	567,105
Inventories:				
Developments in progress and dwelling units	—	—	—	97,735
Materials and supplies	—	261	261	20,086
Net investment in financing lease (note 8)	—	—	—	18,160
Restricted assets (notes 4 and 8)	—	377,200	377,200	853,032
Other assets:				
Prepaid expenses	—	485	485	17,232
Bond issue costs	—	9,144	9,144	6,171
Other	1	—	1	—
Capital assets (notes 5, 6, 7, and 8):				
Land and land improvements	1,630,357	1,338,415	2,968,772	78,478
Infrastructure	8,184,263	—	8,184,263	25,834
Construction in progress	672,238	127,178	799,416	102,148
Buildings, improvements, and equipmen	2,620,697	1,738,476	4,359,173	1,991,267
Accumulated depreciation	(3,837,424)	(1,110,728)	(4,948,152)	(983,793)
Total Capital Assets, Net	9,270,131	2,093,341	11,363,472	1,213,934
Total Assets	\$ 11,466,918	\$ 3,528,343	\$ 14,995,261	\$ 3,414,197

See accompanying notes to basic financial statements.

<u>LIABILITIES</u>	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
Vouchers and contracts payable	\$ 159,787	\$ 26,911	\$ 186,698	\$ 78,516
Other accrued liabilities (note 14)	61,782	25,577	87,359	145,608
Prepaid airport use charge fund (note 12)	—	469	469	—
Due to Component Units (note 10)	11,742	—	11,742	—
Due to Primary Government (note 10)	—	—	—	6,000
Due to federal government	—	—	—	82
Deferred revenue	—	566	566	13,359
Estimated future costs of land sold	—	—	—	43,180
Other	—	18	18	11,341
Payable from restricted assets:				
Contracts payable, accrued interest, and other	—	48,034	48,034	—
Matured bonds and interest payable	63,210	347	63,557	—
Revenue bonds payable, net (notes 8 and 9)	—	42,857	42,857	—
General obligation bonds payable (notes 7 and 9)	—	456	456	—
Long-term liabilities				
Due within one year:				
General obligation bonds payable (notes 7 and 9)	233,262	274	233,536	2,588
Notes, mortgages, and installment contracts payable (note 6)	—	—	—	1,280
Accrued vacation and retirement benefits payable (note 9)	52,933	2,143	55,076	15,409
Revenue bonds payable, net (notes 8 and 9)	9,115	—	9,115	13,976
Reserve for losses and loss adjustment costs (notes 9 and 16)	63,900	837	64,737	3,784
Claims and judgments payable (notes 9 and 14)	30,000	—	30,000	—
Capital lease obligations (notes 9 and 12)	2,895	—	2,895	7,382
Deferred commitment fees (note 9)	—	—	—	644
Due in more than one year:				
General obligation bonds payable (notes 7 and 9)	3,334,739	225	3,334,964	13,404
Notes, mortgages, and installment contracts payable (note 6)	—	—	—	23,812
Accrued vacation and retirement benefits payable (note 9)	98,550	5,110	103,660	44,812
Revenue bonds payable, net (notes 8 and 9)	288,880	1,056,241	1,345,121	989,532
Reserve for losses and loss adjustment costs (notes 9 and 16)	34,500	3,263	37,763	6,112
Claims and judgments payable (notes 9 and 16)	235,600	—	235,600	—
Capital lease obligations (notes 9 and 12)	67,505	—	67,505	32,855
Deferred commitment fees (note 9)	—	—	—	5,740
Total Liabilities	<u>4,748,400</u>	<u>1,213,328</u>	<u>5,961,728</u>	<u>1,459,416</u>
 <u>NET ASSETS</u>				
Invested in capital assets, net of related debt	5,675,825	1,095,297	6,771,122	834,517
Restricted for:				
Capital maintenance projects	212,488	—	212,488	—
Health and welfare	337,998	—	337,998	—
Other purposes	577,589	—	577,589	—
Bond requirements and other	—	175,159	175,159	1,091,265
Unrestricted	(85,382)	1,044,559	959,177	28,999
Total Net Assets	<u>\$ 6,718,518</u>	<u>\$ 2,315,015</u>	<u>\$ 9,033,533</u>	<u>\$ 1,954,781</u>

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STATE OF HAWAII

Statement of Activities

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 469,438	\$ 57,119	\$ 117,498	\$ 1,478	\$ (293,343)	\$ —	\$ (293,343)	
Public safety	247,205	23,871	28,763	—	(194,571)	—	(194,571)	
Highways	346,241	1,485	61,086	74,237	(209,433)	—	(209,433)	
Conservation of natural resources	30,220	20,682	37,827	—	28,289	—	28,289	
Health	498,068	25,784	157,003	—	(315,281)	—	(315,281)	
Welfare	1,335,207	458	816,074	—	(518,675)	—	(518,675)	
Lower education	1,488,825	29,287	164,191	1	(1,295,346)	—	(1,295,346)	
Higher education	455,037	—	—	—	(455,037)	—	(455,037)	
Other education	88,605	2,727	273	—	(85,605)	—	(85,605)	
Culture and recreation	69,354	7,696	2,389	—	(59,269)	—	(59,269)	
Urban redevelopment and housing	1,236	4	9,980	—	8,748	—	8,748	
Economic development and assistance	267,451	27,299	85,818	—	(154,334)	—	(154,334)	
Interest expense	142,118	—	—	—	(142,118)	—	(142,118)	
Total Governmental Activities	5,439,005	196,412	1,480,902	75,716	(3,685,975)	—	(3,685,975)	
Business-Type Activities:								
Airports	279,654	182,895	—	22,986	—	(73,773)	(73,773)	
Harbors	46,315	66,166	181	932	—	20,964	20,964	
Health and unemployment	214,470	167,166	—	—	—	(47,304)	(47,304)	
Total Business-Type Activities	540,439	416,227	181	23,918	—	(100,113)	(100,113)	
Total Primary Government	\$ 5,979,444	\$ 612,639	\$ 1,481,083	\$ 99,634	\$ (3,685,975)	\$ (100,113)	\$ (3,786,088)	
Component Units:								
University of Hawaii	\$ 821,645	\$ 170,944	\$ 212,270	\$ 30,914				\$ (407,517)
Housing and Community Development Corporation of Hawaii	180,055	70,943	65,862	10,800				(32,450)
Hawaii Health Systems Corporation	297,644	267,296	947	2,287				(27,114)
Hawaii Hurricane Relief Fund	9,971	5,113	—	—				(4,858)
Total Component Units	\$ 1,309,315	\$ 514,296	\$ 279,079	\$ 44,001				(471,939)
General Revenues:								
Taxes:								
General excise tax					\$ 1,653,960	\$ —	\$ 1,653,960	—
Net income tax – corporations and individuals					1,090,023	—	1,090,023	—
Public service companies tax					93,406	—	93,406	—
Transient accommodations tax					87,214	—	87,214	—
Tobacco and liquor taxes					104,638	—	104,638	—
Liquid fuel tax					74,661	—	74,661	—
Tax on premiums of insurance companies					68,579	—	68,579	—
Vehicle weight and registration tax					41,969	—	41,969	—
Rental motor/tour vehicle surcharge					36,054	—	36,054	—
Others					35,229	—	35,229	—
Interest and investment income					70,911	60,002	130,913	60,585
Other					93,718	—	93,718	1,543
Cumulative Effect of Accounting Change and Extraordinary Item (note 15)					—	—	—	(1,469)
Transfers (note 11)					(46,810)	17,103	(29,707)	—
Payments from the State					—	—	—	480,724
Total General Revenues, Cumulative Effect of Accounting Change, Extraordinary Item, Transfers, and Payments from the State					3,403,552	77,105	3,480,657	541,383
Change in Net Assets					(282,423)	(23,008)	(305,431)	69,444
Net Assets – Beginning					7,000,941	2,338,023	9,338,964	1,885,337
Net Assets – Ending					\$ 6,718,518	\$ 2,315,015	\$ 9,033,533	\$ 1,954,781

See accompanying notes to basic financial statements.

STATE OF HAWAII

**Governmental Funds
Balance Sheet**

June 30, 2002

(Amounts in thousands)

<u>ASSETS</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments (note 4)	\$ 52,567	\$ 48,235	\$ 119,591	\$ 220,393
Receivables:				
Taxes	288,501	—	7,200	295,701
Notes and loans, net	404	—	247,868	248,272
Federal government	—	—	51,000	51,000
Other	160	218	4,219	4,597
Due from other funds (note 10)	140,900	—	79	140,979
Due from Proprietary Funds (note 10)	—	1,232	—	1,232
Due from Component Units (note 10)	6,000	—	—	6,000
Investments (note 4)	289,143	238,100	842,348	1,369,591
Other assets	—	—	1	1
Total Assets	<u>\$ 777,675</u>	<u>\$ 287,785</u>	<u>\$ 1,272,306</u>	<u>\$ 2,337,766</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Vouchers and contracts payable	\$ 124,465	\$ 13,795	\$ 21,527	\$ 159,787
Other accrued liabilities	51,160	—	10,622	61,782
Due to other funds (note 10)	79	89,900	51,000	140,979
Due to Component Units (note 10)	11,742	—	—	11,742
Payable from restricted assets – matured bonds and interest payable	—	—	1,110	1,110
Deferred revenue	11,500	—	—	11,500
Total Liabilities	<u>198,946</u>	<u>103,695</u>	<u>84,259</u>	<u>386,900</u>
Fund Balances:				
Reserved for:				
Continuing appropriations	229,430	684,949	265,696	1,180,075
Receivables and advances	522	—	242,055	242,577
Federal aid highway project encumbrances	—	120,191	—	120,191
Bond redemption and other	—	—	28,650	28,650
Unreserved:				
Designated for future expenditures	37,670	—	231,864	269,534
Undesignated	311,107	(621,050)	419,782	109,839
Total Fund Balances	<u>578,729</u>	<u>184,090</u>	<u>1,188,047</u>	<u>1,950,866</u>
Total Liabilities and Fund Balances	<u>\$ 777,675</u>	<u>\$ 287,785</u>	<u>\$ 1,272,306</u>	<u>\$ 2,337,766</u>

See accompanying notes to basic financial statements.

STATE OF HAWAII

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

June 30, 2002

(Amounts in thousands)

Total Fund Balance – Governmental Funds	\$	1,950,866
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	\$	1,630,357
Infrastructure		8,184,263
Construction in progress		672,238
Buildings, improvements, and equipment		2,620,697
Accumulated depreciation		<u>(3,837,424)</u>
		9,270,131
Accrued interest payable is not recognized in governmental funds.		(62,100)
Other long-term assets are not available to pay for current-period expenditures and are deferred, or not recognized, in governmental funds, such as deferred tax revenue.		11,500
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General obligation bonds payable		(3,568,001)
Accrued vacation payable		(151,483)
Revenue bonds payable		(297,995)
Reserve for losses and loss adjustment costs		(98,400)
Claims and judgments payable		(265,600)
Capital lease obligations		<u>(70,400)</u>
		<u>(4,451,879)</u>
Net Assets of Governmental Activities	\$	<u><u>6,718,518</u></u>

See accompanying notes to basic financial statements.

STATE OF HAWAII

Governmental Funds

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

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
General excise tax	\$ 1,641,008	\$ —	\$ 9,752	\$ 1,650,760
Net income tax – corporations and individuals	1,081,723	—	—	1,081,723
Public service companies tax	93,406	—	—	93,406
Transient accommodations tax	27,271	—	59,943	87,214
Tobacco and liquor taxes	103,560	—	1,078	104,638
Liquid fuel tax	—	—	74,661	74,661
Tax on premiums of insurance companies	67,941	—	638	68,579
Vehicle weight and registration tax	—	—	41,969	41,969
Rental motor/tour vehicle surcharge	—	—	36,054	36,054
Others	26,909	—	8,320	35,229
Total Taxes	3,041,818	—	232,415	3,274,233
Interest and investment income	33,797	—	37,114	70,911
Charges for current services	23,562	—	141,270	164,832
Intergovernmental	2,322	—	1,255,693	1,258,015
Rentals	13,190	—	17,393	30,583
Fines, forfeitures, and penalties	17,873	—	5,908	23,781
Licenses and fees	980	—	23,499	24,479
Revenues from private sources	1,462	—	68,129	69,591
Accrued interest on general obligation bonds sold	2,443	—	—	2,443
Other	105,441	—	75,785	181,226
Total Revenues	3,242,888	—	1,857,206	5,100,094
Expenditures (note 5):				
Current:				
General government	369,399	53,788	51,081	474,268
Public safety	173,544	7,162	59,459	240,165
Highways	—	119,529	116,407	235,936
Conservation of natural resources	27,726	2,094	26,859	56,679
Health	354,626	3,364	142,231	500,221
Welfare	513,656	723	819,699	1,334,078
Lower education	1,239,426	90,709	189,876	1,520,011
Higher education	450,891	71,044	—	521,935
Other education	3,937	77,433	10,531	91,901
Culture and recreation	34,537	10,097	23,845	68,479
Urban redevelopment and housing	1,370	119	10,094	11,583
Economic development and assistance	45,475	40,024	181,520	267,019
Debt service	—	—	362,600	362,600
Total Expenditures	3,214,587	476,086	1,994,202	5,684,875
Excess (Deficiency) of Revenues Over Expenditures	28,301	(476,086)	(136,996)	(584,781)
Other Financing Sources (Uses):				
Proceeds from general obligation and revenue bonds (notes 7 and 8)	—	622,070	—	622,070
Transfers in (note 11)	6,652	88,008	340,951	435,611
Transfers out (note 11)	(334,244)	(36,414)	(111,763)	(482,421)
Other	72,600	—	21,118	93,718
Total Other Financing Sources (Uses)	(254,992)	673,664	250,306	668,978
Net Change in Fund Balances	(226,691)	197,578	113,310	84,197
Fund Balances (Deficit) – Beginning, as restated (note 2)	805,420	(13,488)	1,074,737	1,866,669
Fund Balances – Ending	\$ 578,729	\$ 184,090	\$ 1,188,047	\$ 1,950,866

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, 2002

(Amounts in thousands)

Total Net Change in Fund Balances – Governmental Funds	\$	84,197
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	\$	376,053
Depreciation expense		<u>(327,247)</u>
Excess of capital outlay over depreciation expense		48,806
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bonds issued.		(622,070)
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	233,117	
Capital lease payments	2,777	
Fiscal agent’s fees and other expenses	<u>266</u>	
Total long-term debt repayment		236,160
Revenue timing differences result in greater revenue in the government-wide financial statements.		11,500
Accrued interest payable is not recognized in governmental funds.		(12,900)
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:		
Loss on sale of capital assets	(3,643)	
Change in accrued vacation payable	(10,473)	
Change in reserve for losses	<u>(14,000)</u>	
		<u>(28,116)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>(282,423)</u></u>

See accompanying notes to basic financial statements.

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STATE OF HAWAII

General Fund

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Budgetary Basis)**

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:				
Taxes:				
General excise tax	\$ 1,724,292	\$ 1,658,384	\$ 1,602,581	\$ (55,803)
Net income tax:				
Corporations	83,459	67,367	45,477	(21,890)
Individuals	1,183,130	1,096,306	1,071,346	(24,960)
Inheritance and estate tax	25,973	20,435	16,624	(3,811)
Liquor permits and tax	40,249	36,913	39,091	2,178
Public service companies tax	118,710	101,545	93,406	(8,139)
Tobacco tax	45,790	64,067	64,469	402
Tax on premiums of insurance companies	60,000	64,500	67,941	3,441
Franchise tax (banks and other financial institutions)	16,322	16,322	4,664	(11,658)
Transient accommodations tax	34,374	27,016	27,271	255
Other taxes, primarily conveyances tax	7,060	5,760	5,621	(139)
Total Taxes	<u>3,339,359</u>	<u>3,158,615</u>	<u>3,038,491</u>	<u>(120,124)</u>
Non-taxes:				
Interest and investment income	39,171	31,677	33,797	2,120
Charges for current services	110,289	135,961	155,962	20,001
Intergovernmental	4,178	4,194	3,291	(903)
Rentals	13,777	13,214	13,190	(24)
Fines, forfeitures, and penalties	19,304	17,721	17,873	152
Licenses and fees	1,059	1,013	980	(33)
Revenues from private sources	1,035	1,161	1,462	301
Accrued interest on general obligation bonds sold	700	2,443	2,443	—
Debt service requirements	55,738	29,265	30,483	1,218
Other	26,940	103,020	112,967	9,947
Total Non-taxes	<u>272,191</u>	<u>339,669</u>	<u>372,448</u>	<u>32,779</u>
Total Revenues	<u>3,611,550</u>	<u>3,498,284</u>	<u>3,410,939</u>	<u>(87,345)</u>
Expenditures:				
Current:				
General government	589,655	631,798	598,644	33,154
Public safety	160,636	168,840	164,679	4,161
Conservation of natural resources	37,819	26,148	25,602	546
Health	360,449	369,503	358,880	10,623
Hospitals	2,000	13,214	13,214	—
Welfare	528,709	537,486	528,768	8,718
Lower education	1,320,965	1,348,587	1,312,920	35,667
Higher education	428,841	441,486	441,262	224
Other education	3,832	3,914	3,900	14
Culture and recreation	2,281	34,823	34,317	506
Urban redevelopment and housing	1,360	1,523	1,472	51
Economic development and assistance	27,551	46,382	44,163	2,219
Housing	7,815	7,963	7,173	790
Social security and pension contributions	109,545	107,319	105,346	1,973
Other	637	14,735	10,779	3,956
Total Expenditures	<u>3,582,095</u>	<u>3,753,721</u>	<u>3,651,119</u>	<u>102,602</u>
Excess (Deficiency) of Revenues over Expenditures	29,455	(255,437)	(240,180)	(189,947)
Other Financing Sources (Uses):				
Transfers	7,838	30,087	30,025	(62)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	<u>\$ 37,293</u>	<u>\$ (225,350)</u>	<u>\$ (210,155)</u>	<u>\$ (190,009)</u>

See accompanying notes to basic financial statements.

STATE OF HAWAII

**Proprietary Funds
Statement of Net Assets**

June 30, 2002

(Amounts in thousands)

<u>ASSETS</u>	<u>Airports</u>	<u>Harbors</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Current Assets:				
Cash and short-term investments (note 4)	\$ 574,707	\$ 82,403	\$ 167,839	\$ 824,949
Receivables:				
Taxes	—	—	31,000	31,000
Accounts and accrued interest (net of allowance for doubtful accounts of \$11,990)	31,348	8,063	—	39,411
Federal government	4,086	2,123	—	6,209
Other	298	—	—	298
Due to Capital Projects Fund (note 10)	—	(1,232)	—	(1,232)
Investments (note 4)	—	—	147,277	147,277
Inventory of materials and supplies	219	42	—	261
Prepaid expenses and other assets	461	24	—	485
Total Current Assets	<u>611,119</u>	<u>91,423</u>	<u>346,116</u>	<u>1,048,658</u>
Restricted Assets (notes 4, 5, and 8):				
Cash and short-term investments	170,613	60,719	—	231,332
Investments – repurchase agreements	85,284	—	—	85,284
Net direct financing leases (note 12)	41,944	18,640	—	60,584
Total Restricted Assets	<u>297,841</u>	<u>79,359</u>	<u>—</u>	<u>377,200</u>
Noncurrent Assets:				
Capital assets (notes 5, 6, and 8):				
Land and land improvements	992,524	345,891	—	1,338,415
Construction in progress	76,207	50,971	—	127,178
Buildings and improvements	1,246,316	306,032	—	1,552,348
Equipment	175,091	11,037	—	186,128
Less accumulated depreciation	(979,814)	(130,914)	—	(1,110,728)
Net Capital Assets	<u>1,510,324</u>	<u>583,017</u>	<u>—</u>	<u>2,093,341</u>
Bond issue costs	6,655	2,489	—	9,144
Total Noncurrent Assets	<u>1,516,979</u>	<u>585,506</u>	<u>—</u>	<u>2,102,485</u>
Total Assets	<u>\$ 2,425,939</u>	<u>\$ 756,288</u>	<u>\$ 346,116</u>	<u>\$ 3,528,343</u>

See accompanying notes to basic financial statements.

LIABILITIES	Airports	Harbors	Nonmajor Proprietary Funds	Total Proprietary Funds
Current Liabilities:				
Vouchers and contracts payable	\$ 25,107	\$ 1,757	\$ 47	\$ 26,911
Other accrued liabilities	5,273	2,221	18,083	25,577
Prepaid airport use charge fund	469	—	—	469
Deferred revenue	566	—	—	566
General obligation bonds payable, current portion (notes 7 and 9)	274	—	—	274
Accrued vacation, current portion (note 9)	2,143	—	—	2,143
Reserve for losses and loss adjustment costs (note 9)	837	—	—	837
Total Current Liabilities	34,669	3,978	18,130	56,777
Liabilities Payable from Restricted Assets:				
Contracts payable, accrued interest, and other	27,982	20,052	—	48,034
Matured bonds and interest payable	—	347	—	347
Revenue bonds payable (notes 8 and 9)	28,005	14,852	—	42,857
General obligation bonds payable (notes 7 and 9)	—	456	—	456
Total Liabilities Payable from Restricted Assets	55,987	35,707	—	91,694
Long-Term Liabilities:				
General obligation bonds payable (notes 7 and 9)	75	150	—	225
Accrued vacation (note 9)	5,110	—	—	5,110
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding) (notes 8 and 9)	844,943	211,298	—	1,056,241
Reserve for losses and loss adjustment costs (note 9)	3,263	—	—	3,263
Other	18	—	—	18
Total Long-Term Liabilities	853,409	211,448	—	1,064,857
Total Liabilities	944,065	251,133	18,130	1,213,328
NET ASSETS				
Invested in capital assets, net of related debt	\$ 739,035	\$ 356,262	\$ —	\$ 1,095,297
Restricted for bond requirements and other	175,159	—	—	175,159
Unrestricted	567,680	148,893	327,986	1,044,559
Total Net Assets	\$ 1,481,874	\$ 505,155	\$ 327,986	\$ 2,315,015

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating Revenues:				
Concession fees	\$ 102,788	\$ —	\$ —	\$ 102,788
Unemployment compensation tax	—	—	141,670	141,670
Employee benefits	—	—	969	969
Airport use charges	14,565	—	—	14,565
Rentals	58,743	21,995	—	80,738
Intergovernmental	—	—	24,048	24,048
Services and others	392	43,049	—	43,441
Aviation fuel tax	3,322	—	—	3,322
Other	3,085	1,122	479	4,686
Total Operating Revenues	<u>182,895</u>	<u>66,166</u>	<u>167,166</u>	<u>416,227</u>
Operating Expenses:				
Personal services	84,526	9,453	—	93,979
Depreciation (note 5)	84,730	11,591	—	96,321
Repairs and maintenance	20,430	4,492	—	24,922
Airports operations	25,101	—	—	25,101
Harbors operations	—	2,049	—	2,049
Fireboat operations	—	1,605	—	1,605
General administration	10,379	5,733	—	16,112
Unemployment compensation	—	—	213,682	213,682
Employee benefits	—	—	788	788
Other	854	—	—	854
Total Operating Expenses	<u>226,020</u>	<u>34,923</u>	<u>214,470</u>	<u>475,413</u>
Operating Income (Loss)	<u>(43,125)</u>	<u>31,243</u>	<u>(47,304)</u>	<u>(59,186)</u>
Nonoperating Revenues (Expenses):				
Interest income	33,578	5,783	20,641	60,002
Interest expense	(47,333)	(10,736)	—	(58,069)
Amortization of bond discount and bond issue costs	—	(638)	—	(638)
Federal operating grants	4,949	—	—	4,949
Loss on disposal of capital assets	(4,393)	(18)	—	(4,411)
Other	(1,908)	181	—	(1,727)
Total Nonoperating Revenues (Expenses)	<u>(15,107)</u>	<u>(5,428)</u>	<u>20,641</u>	<u>106</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(58,232)</u>	<u>25,815</u>	<u>(26,663)</u>	<u>(59,080)</u>
Capital contributions	18,037	932	—	18,969
Transfers (note 11)	17,103	—	—	17,103
Change in Net Assets	<u>(23,092)</u>	<u>26,747</u>	<u>(26,663)</u>	<u>(23,008)</u>
Net Assets – Beginning, as restated (note 2)	<u>1,504,966</u>	<u>478,408</u>	<u>354,649</u>	<u>2,338,023</u>
Net Assets – Ending	<u>\$ 1,481,874</u>	<u>\$ 505,155</u>	<u>\$ 327,986</u>	<u>\$ 2,315,015</u>

See accompanying notes to basic financial statements.

STATE OF HAWAII

**Proprietary Funds
Statement of Cash Flows**

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities:				
Cash received from customers	\$ 155,273	\$ 64,699	\$ 409,925	\$ 629,897
Cash received from taxes	—	—	141,670	141,670
Cash received from federal and local agencies	—	—	24,048	24,048
Cash paid to suppliers	(84,133)	(14,444)	—	(98,577)
Cash paid to employees	(47,088)	(9,173)	—	(56,261)
Cash paid for unemployment compensation	—	—	(213,682)	(213,682)
Cash paid for employee benefits	—	—	(444,115)	(444,115)
Other cash receipts	—	—	479	479
Net Cash Provided by (Used in) Operating Activities	<u>24,052</u>	<u>41,082</u>	<u>(81,675)</u>	<u>(16,541)</u>
Cash Flows from Noncapital Financing Activities:				
Proceeds from federal operating grants	<u>1,781</u>	<u>—</u>	<u>—</u>	<u>1,781</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(32,403)	(33,839)	—	(66,242)
Proceeds from issuance of refunding revenue bonds	—	24,549	—	24,549
Payments to refund revenue bonds	—	(24,117)	—	(24,117)
Repayment of general obligation bond principal	(374)	(77)	—	(451)
Repayment of revenue bond principal	(48,810)	(7,276)	—	(56,086)
Bond issue costs	—	(429)	—	(429)
Interest paid on bonds	(41,589)	(11,429)	—	(53,018)
Proceeds from transfer in from Highways Division	17,103	—	—	17,103
Proceeds from federal, state, and capital grants	19,498	—	—	19,498
Net Cash Used in Capital and Related Financing Activities	<u>(86,575)</u>	<u>(52,618)</u>	<u>—</u>	<u>(139,193)</u>
Cash Flows from Investing Activities:				
Purchase of investments	(107,985)	—	—	(107,985)
Proceeds from sales and maturities of investments	107,496	—	36,951	144,447
Interest from investments	34,544	6,041	20,641	61,226
Net Cash Provided by Investing Activities	<u>34,055</u>	<u>6,041</u>	<u>57,592</u>	<u>97,688</u>
Net Decrease in Cash and Cash Equivalents	(26,687)	(5,495)	(24,083)	(56,265)
Cash and Cash Equivalents, including Restricted Amounts – Beginning	<u>772,007</u>	<u>148,617</u>	<u>191,922</u>	<u>1,112,546</u>
Cash and Cash Equivalents, including Restricted Amounts – Ending	<u>\$ 745,320</u>	<u>\$ 143,122</u>	<u>\$ 167,839</u>	<u>\$ 1,056,281</u>

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating income (loss)	\$ (43,125)	\$ 31,243	\$ (47,304)	\$ (59,186)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Provision for uncollectible accounts	521	1,603	—	2,124
Depreciation	84,730	11,591	—	96,321
Nonoperating expense, net	—	181	—	181
Decrease (increase) in assets:				
Receivables	(15,930)	(3,252)	—	(19,182)
Inventory of materials and supplies	—	5	—	5
Prepaid expenses and other assets	—	109	—	109
Increase (decrease) in liabilities:				
Vouchers and contracts payable	1,576	151	(181)	1,546
Other accrued liabilities	8,451	(549)	(34,190)	(26,288)
Prepaid airport use charge fund	(680)	—	—	(680)
Deferred revenue	(11,491)	—	—	(11,491)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 24,052</u>	<u>\$ 41,082</u>	<u>\$ (81,675)</u>	<u>\$ (16,541)</u>
Noncash Investing, Capital, and Financing Activities:				
Contributed capital assets	\$ 2,630	\$ —	\$ —	\$ 2,630
Amortization of bond discount and bond issue costs	—	638	—	638
Project costs written off	4,393	—	—	4,393
Contracts payable accrual for the acquisition of capital assets	5,163	—	—	5,163
Capitalized interest	4,561	—	—	4,561

See accompanying notes to basic financial statements.

STATE OF HAWAII

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2002

(Amounts in thousands)

<u>ASSETS</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Cash and short-term investments (note 4)	\$ 62,146	\$ 89,642
Receivables:		
Taxes	—	8,400
Notes	—	105
Total Receivables	<u>—</u>	<u>8,505</u>
Investments (note 4):		
Repurchase agreements	53,013	53,670
Corporate stocks	24	7
Liquid asset funds	31	10
U.S. government securities	—	11
Total Investments	<u>53,068</u>	<u>53,698</u>
Total Assets	<u>\$ 115,214</u>	<u>\$ 151,845</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Vouchers payable	\$ 1,400	\$ 4,499
Due to individuals, businesses, and counties	—	147,346
Total Liabilities	<u>1,400</u>	<u>\$ 151,845</u>
Net assets – held in trust for Hawaiian programs	<u>\$ 113,814</u>	

See accompanying notes to basic financial statements.

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STATE OF HAWAII

Fiduciary Funds

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	Private Purpose Trust Fund
Additions:	
Charges for current services	\$ 230
Rentals	1,226
Interest and investment income	8,151
Transfers from Capital Projects Fund (notes 11 and 14)	30,000
Other	12,353
Total Additions	<u>51,960</u>
Deductions:	
Personal services	1,854
Other	27,517
Total Deductions	<u>29,371</u>
Change in Net Assets	22,589
Net Assets – Beginning	<u>91,225</u>
Net Assets – Ending	<u>\$ 113,814</u>

See accompanying notes to basic financial statements.

STATE OF HAWAII

**Component Units
Statement of Net Assets**

June 30, 2002

(Amounts in thousands)

<u>ASSETS</u>	<u>University of Hawaii</u>	<u>Housing and Community Development Corporation of Hawaii</u>	<u>Hawaii Health Systems Corporation</u>	<u>Hawaii Hurricane Relief Fund</u>	<u>Total Component Units</u>
Cash and short-term investments (note 4)	\$ 152,358	\$ 187,242	\$ 6,970	\$ 4,607	\$ 351,177
Receivables:					
Accounts and accrued interest (net of allowance for doubtful accounts of \$100,573)	76,188	6,587	52,914	2,955	138,644
Notes, loans, and mortgages (net of allowance for doubtful accounts of \$5,740)	23,701	83,512	—	—	107,213
Federal government	—	7,573	—	—	7,573
Other (net of allowance of \$4,517)	—	4,361	—	32	4,393
Due from Primary Government (note 10)	11,739	3	—	—	11,742
Investments (note 4)	335,864	16,581	—	214,660	567,105
Inventories:					
Developments in progress and dwelling units	—	97,735	—	—	97,735
Materials and supplies	12,058	600	7,428	—	20,086
Net investment in financing lease (note 8)	—	18,160	—	—	18,160
Prepaid expenses and other assets	14,554	2,619	59	—	17,232
	<u>626,462</u>	<u>424,973</u>	<u>67,371</u>	<u>222,254</u>	<u>1,341,060</u>
Restricted assets (notes 4, 5, and 8):					
Cash and short-term investments	90,836	40,586	—	—	131,422
Investments:					
U.S. government securities	—	8,768	—	—	8,768
Guaranteed investment contracts	—	924	—	—	924
Mortgage-backed securities	—	459,140	—	—	459,140
Repurchase agreements	—	245,186	—	—	245,186
Deposits, funded reserves, and other	—	6,729	863	—	7,592
Total Restricted Assets	<u>90,836</u>	<u>761,333</u>	<u>863</u>	<u>—</u>	<u>853,032</u>
Capital assets (notes 5, 6, and 8):					
Land and land improvements	9,708	63,961	4,809	—	78,478
Infrastructure	25,834	—	—	—	25,834
Construction in progress	50,534	36,627	14,987	—	102,148
Buildings, improvements, and equipment	1,110,845	581,244	299,178	—	1,991,267
Less accumulated depreciation	<u>(567,945)</u>	<u>(273,043)</u>	<u>(142,805)</u>	<u>—</u>	<u>(983,793)</u>
Total Capital Assets, Net	<u>628,976</u>	<u>408,789</u>	<u>176,169</u>	<u>—</u>	<u>1,213,934</u>
Other assets:					
Bond issue costs	—	6,171	—	—	6,171
Total Assets	<u>\$ 1,346,274</u>	<u>\$ 1,601,266</u>	<u>\$ 244,403</u>	<u>\$ 222,254</u>	<u>\$ 3,414,197</u>

See accompanying notes to basic financial statements.

<u>LIABILITIES</u>	<u>University of Hawaii</u>	<u>Housing and Community Development Corporation of Hawaii</u>	<u>Hawaii Health Systems Corporation</u>	<u>Hawaii Hurricane Relief Fund</u>	<u>Total Component Units</u>
Current Liabilities:					
Vouchers and contracts payable	\$ 29,107	\$ 9,898	\$ 39,437	\$ 74	\$ 78,516
Other accrued liabilities	74,548	29,400	41,660	—	145,608
Due to Primary Government (note 10)	6,000	—	—	—	6,000
Due to federal government	—	82	—	—	82
Deferred revenue	12,996	363	—	—	13,359
Estimated future costs of land sold	—	43,180	—	—	43,180
General obligation bonds payable (notes 7 and 9)	2,588	—	—	—	2,588
Notes, mortgages, and installment contracts payable (note 6)	575	137	568	—	1,280
Accrued vacation and retirement benefits payable (note 9)	14,690	—	719	—	15,409
Revenue bonds payable (notes 8 and 9)	1,045	12,931	—	—	13,976
Reserve for losses and loss adjustment costs (note 9)	3,784	—	—	—	3,784
Capital lease obligations (notes 9 and 12)	345	—	7,037	—	7,382
Deferred commitment fees	—	644	—	—	644
Other liabilities	9,202	1,618	521	—	11,341
Total Current Liabilities	<u>154,880</u>	<u>98,253</u>	<u>89,942</u>	<u>74</u>	<u>343,149</u>
Long-term Liabilities:					
General obligation bonds payable (notes 7 and 9)	13,404	—	—	—	13,404
Notes, mortgages, and installment contracts payable (note 6)	1,703	10,686	11,423	—	23,812
Accrued vacation and retirement benefits payable (note 9)	26,526	—	18,286	—	44,812
Revenue bonds payable (notes 8 and 9)	168,275	821,257	—	—	989,532
Reserve for losses and loss adjustment costs (note 9)	6,112	—	—	—	6,112
Capital lease obligations (notes 9 and 12)	15,805	—	17,050	—	32,855
Deferred commitment fees	—	5,740	—	—	5,740
Total Liabilities	<u>386,705</u>	<u>935,936</u>	<u>136,701</u>	<u>74</u>	<u>1,459,416</u>
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	425,259	268,793	140,465	—	834,517
Restricted	328,923	761,861	481	—	1,091,265
Unrestricted (deficit)	205,387	(365,324)	(33,244)	222,180	28,999
Total Net Assets	<u>\$ 959,569</u>	<u>\$ 665,330</u>	<u>\$ 107,702</u>	<u>\$ 222,180</u>	<u>\$ 1,954,781</u>

STATE OF HAWAII

Component Units

Statement of Revenues, Expenditures, and Changes in Net Assets

For the Fiscal Year Ended June 30, 2002

(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 (note 5)	\$ 821,645	\$ 180,055	\$ 297,644	\$ 9,971	\$ 1,309,315
Program Revenues:					
Charges for current services	170,944	70,943	267,296	5,113	514,296
Operating grants and contributions	212,270	65,862	947	—	279,079
Capital grants and contributions	30,914	10,800	2,287	—	44,001
Total Program Revenues	414,128	147,605	270,530	5,113	837,376
Net Program Expenses	(407,517)	(32,450)	(27,114)	(4,858)	(471,939)
General Revenues (Expenses):					
Interest and investment income	—	46,915	236	13,434	60,585
Cumulative effect of accounting change (note 15)	(1,191)	—	—	—	(1,191)
Extraordinary item (note 15)	—	(278)	—	—	(278)
Payments from the State	467,510	—	13,214	—	480,724
Other	397	—	1,146	—	1,543
Net General Revenues	466,716	46,637	14,596	13,434	541,383
Change in Net Assets	59,199	14,187	(12,518)	8,576	69,444
Net Assets – Beginning, as restated (note 2)	900,370	651,143	120,220	213,604	1,885,337
Net Assets – Ending	\$ 959,569	\$ 665,330	\$ 107,702	\$ 222,180	\$ 1,954,781

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

June 30, 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Primary Government

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

Executive:

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

Judicial

Legislative

Notes to Basic Financial Statements

June 30, 2002

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 State. The discretely presented Component Units are as follows:

University of Hawaii

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

Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH. The activities of the UH are under the general management of the Board of Regents consisting of 11 members who are appointed and may be removed by the Governor.

Housing and Community Development Corporation of Hawaii

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

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

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

Notes to Basic Financial Statements

June 30, 2002

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 has provided significant operating subsidies to the HHSC since its inception. 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, 2002. Accordingly, the assets, liabilities, and fund balances of the HHSC reflected in the accompanying basic financial statements at June 30, 2002 may be significantly different from those included in the final settlement.

The HHSC is comprised of the following State Hospitals:

Hilo Medical Center	Kula Hospital
Hale Ho'ola Hamakua fka Honokaa Hospital	Lanai Community Hospital
Ka'u Hospital	Leahi Hospital
Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital
Kohala Hospital	Maluhia (A Long-Term Care Health Center)
Kona Community Hospital	Maui Memorial Medical Center

Notes to Basic Financial Statements

June 30, 2002

Hawaii Hurricane Relief Fund

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

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

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

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

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

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

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

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

Notes to Basic Financial Statements

June 30, 2002

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

Governmental Fund Financial Statements – The Governmental Fund 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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

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

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

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

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

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

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

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

D. Fund Accounting

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

Notes to Basic Financial Statements

June 30, 2002

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 follows.

Governmental Fund Types

The State reports the following major Governmental Funds:

General Fund

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

Capital Projects Fund

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

The nonmajor Governmental Funds are comprised of the following:

Special Revenue Funds

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

Debt Service Fund

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

Proprietary Fund Type – Enterprise Funds

The major Enterprise Funds are comprised of the following:

Department of Transportation – Airports Division (Airports)

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

Department of Transportation – Harbors Division (Harbors)

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

Notes to Basic Financial Statements

June 30, 2002

The nonmajor Enterprise Funds are comprised of the following:

Health Fund

This fund accounts for the Hawaii Public Employees Health Fund, which includes medical, dental, and life insurance coverage.

Unemployment Compensation Fund

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

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 University of Hawaii, 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

Activity 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.

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Notes to Basic Financial Statements

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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.

G. Investments

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

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.

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, 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.

Notes to Basic Financial Statements

June 30, 2002

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, and component unit 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 Types in the fund financial statements, as well as in the Component Unit 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 Unit 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.

Notes to Basic Financial Statements

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

M. Net Assets and Fund Equity

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

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

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

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

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

N. Nonexchange Transactions

Effective July 1, 2000, the State adopted 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. GASB Statement No. 33 requires that the Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues

Notes to Basic Financial Statements

June 30, 2002

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 is of 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 and the first \$2 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$25 million (\$10 million for earthquake, named hurricane, and flood) and the annual aggregate for general liability losses per occurrence is \$15 million. The State also has an insurance policy to cover medical malpractice risk in the amount of \$30 million per occurrence with no annual aggregate limit. 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 statement of net assets.

R. Estimates

The preparation of basic financial statements in conformance 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.

Notes to Basic Financial Statements

June 30, 2002

(2) ACCOUNTING CHANGES AND RESTATEMENT OF BEGINNING FUND BALANCES

Effective July 1, 2001, the State adopted the following new accounting standards and restated beginning fund balances as discussed below.

A. GASB Statement No. 34

For the fiscal year ended June 30, 2002, the State implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), as amended by GASB Statement No. 37. This statement significantly changes the manner in which the State’s financial condition and results of operations are presented. The State now reports its Special Revenue and Debt Service Funds as Nonmajor Governmental Funds in the fund financial statements and now reports the Health and Unemployment Compensation Funds as Nonmajor Proprietary Funds in the Fund Financial Statements.

The “Management’s Discussion and Analysis” is among the new requirements of GASB Statement No. 34 and is designed to provide a narrative introduction and analytical overview of the State’s financial activities. This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

B. GASB Statement No. 35

For the fiscal year ended June 30, 2002, the State adopted GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires resources to be classified for accounting and reporting purposes by type of net asset. GASB Statement No. 35 also requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a consolidated basis.

C. GASB Statement No. 38

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, modifies, adds, and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt.

D. GASB Interpretation No. 6

For the fiscal year ended June 30, 2002, the State implemented GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*, which clarified that certain liabilities are not recognized as governmental fund liabilities until they actually mature and payment is required. Prior to GASB Interpretation No. 6, the State had recognized governmental fund liabilities for workers’ compensation, litigation and self-insurance, accrued vacation, general obligation and revenue bonds, and capital leases. The liabilities were recorded to the extent that amounts were due and payable within one year of the balance sheet date. The effect of such liabilities has been removed from the governmental funds and beginning fund balances have been increased accordingly.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

E. Restatement of Beginning Fund Balances

The effects of the changes noted above are as follows (amounts expressed in thousands):

<u>Fund Balances/Net Assets</u>	<u>Fund Balance at June 30, 2001, as previously reported</u>	<u>Effect of GASB Statement Nos. 34, 35, 37, and Interpretation No. 6</u>	<u>Fund Balance at June 30, 2001, as restated</u>
General Fund	\$ 805,341	\$ 79	\$ 805,420
Capital Projects Fund	(21,613)	8,125	(13,488)
Special Revenue Funds	1,051,133	(1,051,133)	—
Debt Service Fund	938	(938)	—
Nonmajor Governmental Funds	—	1,074,737	1,074,737
Nonmajor Proprietary Funds	—	354,649	354,649
Expendable Trust Funds	499,963	(499,963)	—
UH	1,496,829	(596,459)	900,370
HCDCH	659,053	(7,910)	651,143

(3) 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 2001 (Act 259, SLH of 2001), as amended by the Supplemental Appropriations Act of 2002 (Act 177, SLH of 2002), and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of those appropriated funds are made pursuant to the appropriations in the fiscal 2000-2002 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, expenditures, and changes in fund balance – budget and actual (budgetary basis) – general fund represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

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Notes to Basic Financial Statements

June 30, 2002

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, 2002, there were no expenditures in excess of appropriations in the individual funds.

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

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

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2002 follows (amounts expressed in thousands):

	<u>General Fund</u>
Deficiency of revenues and other sources over expenditures and other uses – actual (budgetary basis)	\$ (210,155)
Reserve for encumbrances at fiscal year-end*	184,511
Expenditures for liquidation of prior fiscal year encumbrances	(220,940)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	(198)
Tax refunds payable	(12,900)
Accrued liabilities	16,764
Accrued revenues	16,227
Net change in fund balance – GAAP basis	\$ <u><u>(226,691)</u></u>

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

(4) 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 and Component Units based on their equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government,

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Notes to Basic Financial Statements

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obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

A. Cash

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

For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

The carrying amount of the State's deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2002 was \$853,306,000 for the Primary Government, \$151,788,000 for the Fiduciary Funds, and \$351,177,000 for the Component Units. The difference between deposits and cash and short-term investments as reflected in the basic financial statements relate to repurchase agreements and U.S. government securities with original maturities of three months or less amounting to \$192,036,000.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits amounted to \$1,148,911,714 at June 30, 2002. The portion of such bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State totaled \$844,233,013. The remaining bank balances of \$304,678,701 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 Enterprise Funds' cash in bank which was uninsured and uncollateralized. The Special Revenue Funds' and Enterprise Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations.

B. Investments

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

The following tables present the State's investments at June 30, 2002 (amounts expressed in thousands), and provide information about the custodial credit risks associated with the State's investments. The three categories of custodial credit risk are:

- Category 1: Investments which are insured or registered, or securities held by the State or its agent in the State's name.

STATE OF HAWAII

Notes to Basic Financial Statements

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

	Fair Value	Category		
		1	2	3
Investments – Primary				
Government:				
U.S. government securities	\$ 554,763	\$ 554,763	\$ —	\$ —
Repurchase agreements	846,497	846,497	—	—
Corporate stocks and bonds	69	69	—	—
Miscellaneous	362,969	362,969	—	—
	<u>1,764,298</u>	<u>1,764,298</u>	<u>—</u>	<u>—</u>
Less:				
Restricted assets investments	(55,394)	(55,394)	—	—
Investments reported as cash and short-term investments	(192,036)	(192,036)	—	—
	<u>\$ 1,516,868</u>	<u>\$ 1,516,868</u>	<u>\$ —</u>	<u>\$ —</u>
Investments – Fiduciary Funds:				
U.S. government securities	\$ 11	\$ 11	\$ —	\$ —
Repurchase agreements	106,683	106,683	—	—
Corporate stocks and bonds	31	31	—	—
Miscellaneous	41	41	—	—
	<u>\$ 106,766</u>	<u>\$ 106,766</u>	<u>\$ —</u>	<u>\$ —</u>
Investments – Component Units:				
U.S. government securities	\$ 314,108	\$ 305,340	\$ 8,768	\$ —
Guaranteed investment contracts	924	—	924	—
Repurchase agreements	245,186	—	245,186	—
Mortgage-backed securities	465,690	6,550	459,140	—
Corporate stocks and bonds	206,897	124,982	—	81,915
Miscellaneous	48,318	40,324	—	7,994
	<u>1,281,123</u>	<u>477,196</u>	<u>714,018</u>	<u>89,909</u>
Less restricted assets investments	(714,018)	—	(714,018)	—
	<u>\$ 567,105</u>	<u>\$ 477,196</u>	<u>\$ —</u>	<u>\$ 89,909</u>

STATE OF HAWAII

Notes to Basic Financial Statements

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(5) CAPITAL ASSETS

For the year ended June 30, 2002, capital asset activity for the Primary Government (governmental activities and business-type activities) and Component Units were as follows (amounts expressed in thousands):

A. Primary Government

	Governmental Activities			
	Balance July 1, 2001, as restated	Additions	Deletions	Balance June 30, 2002
Capital assets not being depreciated:				
Land and improvements	\$ 1,587,410	\$ 47,623	\$ 4,676	\$ 1,630,357
Infrastructure	661,387	11,072	—	672,459
Construction in progress	651,788	239,943	219,493	672,238
Total capital assets not being depreciated	<u>2,900,585</u>	<u>298,638</u>	<u>224,169</u>	<u>2,975,054</u>
Capital assets being depreciated:				
Buildings and improvements	2,203,737	194,459	243	2,397,953
Equipment	212,524	23,686	13,466	222,744
Infrastructure	7,433,041	78,763	—	7,511,804
Total capital assets being depreciated	<u>9,849,302</u>	<u>296,908</u>	<u>13,709</u>	<u>10,132,501</u>
Less accumulated depreciation	<u>(3,520,244)</u>	<u>(327,247)</u>	<u>(10,067)</u>	<u>(3,837,424)</u>
Total capital assets	<u>\$ 9,229,643</u>	<u>\$ 268,299</u>	<u>\$ 227,811</u>	<u>\$ 9,270,131</u>
	Business-Type Activities			
	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Capital assets not being depreciated:				
Land and improvements	\$ 1,266,388	\$ 72,030	\$ 3	\$ 1,338,415
Construction in progress	154,548	66,768	94,138	127,178
Total capital assets not being depreciated	<u>1,420,936</u>	<u>138,798</u>	<u>94,141</u>	<u>1,465,593</u>
Capital assets being depreciated:				
Buildings and improvements	1,535,249	17,246	147	1,552,348
Equipment	176,391	10,291	554	186,128
Total capital assets being depreciated	<u>1,711,640</u>	<u>27,537</u>	<u>701</u>	<u>1,738,476</u>
Less accumulated depreciation	<u>(1,014,943)</u>	<u>(96,321)</u>	<u>(536)</u>	<u>(1,110,728)</u>
Total capital assets	<u>\$ 2,117,633</u>	<u>\$ 70,014</u>	<u>\$ 94,306</u>	<u>\$ 2,093,341</u>

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Notes to Basic Financial Statements

June 30, 2002

Depreciation expense for the year ended June 30, 2002 was charged to functions/programs of the Primary Government as follows:

Governmental Activities:		
General government		\$ 16,636
Public safety		8,511
Highways		230,931
Conservation of natural resources		2,858
Health		3,893
Welfare		1,169
Lower education		40,758
Culture and recreation		812
Urban redevelopment and housing		21,679
Total depreciation expense – governmental activities		<u>\$ 327,247</u>
Business-Type Activities:		
Airports		\$ 84,730
Harbors		11,591
Total depreciation expense – business-type activities		<u>\$ 96,321</u>

B. Component Units

	Component Units			
	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Capital assets not being depreciated:				
Land and improvements	\$ 78,323	\$ 155	\$ —	\$ 78,478
Construction in progress	80,694	54,679	33,225	102,148
Total capital assets not being depreciated	<u>159,017</u>	<u>54,834</u>	<u>33,225</u>	<u>180,626</u>
Capital assets being depreciated:				
Infrastructure	21,230	4,604	—	25,834
Buildings and improvements	1,515,003	51,846	10,025	1,556,824
Equipment	405,635	41,333	12,525	434,443
Total capital assets being depreciated	<u>1,941,868</u>	<u>97,783</u>	<u>22,550</u>	<u>2,017,101</u>
Less accumulated depreciation	<u>(933,914)</u>	<u>(66,642)</u>	<u>(16,763)</u>	<u>(983,793)</u>
Total capital assets	<u>\$ 1,166,971</u>	<u>\$ 85,975</u>	<u>\$ 39,012</u>	<u>\$ 1,213,934</u>

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Notes to Basic Financial Statements

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Depreciation expense for the year ended June 30, 2002 was charged to programs of the Component Units as follows:

University of Hawaii	\$	37,051
HCDCH		15,756
HHSC		13,835
	\$	<u>66,642</u>

(6) NOTES, MORTGAGES, AND INSTALLMENT CONTRACTS PAYABLE – COMPONENT UNITS

A. University of Hawaii

At June 30, 2002, notes payable to various banks amounted to \$1,479,563. The notes are payable in monthly or annual installments with interest ranging from 4.38% to 6.75% and are secured by various plant facilities.

At June 30, 2002, installment contracts payable arising from purchases of certain equipment amounted to \$798,309 with interest ranging from 6.30% to 12.90% per annum.

B. HCDCH

At June 30, 2002, the HCDCH had three mortgage notes payable to the U.S. Department of Agriculture, Farmers Home Administration, amounting to \$492,000. Two notes were originated in August 1976, and are payable in combined monthly installments of \$2,207, including interest at 1.00%, with the final combined payment due in August 2009. The final note was originated in October 1994, and is payable in monthly installments of \$1,315, including interest at 1.00%, with the final payment due in October 2027. The notes are secured by property and rental receipts.

During fiscal 1996, the State of Hawaii Affordable Rental Program (SHARP) borrowed \$3.5 million from the Department of Budget and Finance, Rental Housing Trust Fund, and issued approximately \$7 million of revenue bonds to purchase the Kekuilani Courts Rental Housing Project from an outside party. The full amount of the non-interest bearing note is due and payable upon the earlier of June 30, 2027, or the redemption of all SHARP revenue bonds associated with the Kekuilani Courts Rental Housing Project.

The notes payable balance at June 30, 2002, also consisted of a \$171,000, unsecured promissory note payable to an individual. The entire principal balance plus accrued interest, 1.00% at June 30, 2002, is due on January 1, 2018.

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Notes to Basic Financial Statements

June 30, 2002

In October 1976, the Banyan Street Manor Project entered into a mortgage note agreement amounting to \$1,728,000 with USGI, Inc. (insured by HUD). In September 1996, Greystone Servicing Corporation, Inc. became the new servicing agent and mortgagee. The mortgage loan bears interest at 7.50% and is collateralized by the rental property. Principal and interest are payable in monthly installments of \$11,370. The mortgage loan matures on January 1, 2018 and amounted to \$886,730 at June 30, 2002.

In December 1996, the HCDCH entered into mortgage agreements with the U.S. Department of Agriculture, Rural Development, in the amount of approximately \$5,214,000 and with the Rental Housing Trust Fund Commission in the amount of approximately \$696,000. The first mortgage loan bears interest at 7.25% and is collateralized by a low-income housing project. Principal and interest are payable in monthly installments of \$11,509. The first mortgage loan matures on December 1, 2046 and amounted to \$5,144,000 at June 30, 2002. The second mortgage loan bears interest at 1.00% and is collateralized by the same low-income housing project. Principal and interest are payable in monthly installments of \$1,475. The second mortgage loan matures on January 1, 2047 and amounted to \$629,000 at June 30, 2002.

C. HHSC

In June 2001, the HHSC acquired land, building and medical equipment for \$11,893,000 from Hilo Residency Training Program, Inc. (HRTP). As part of the acquisition, the HHSC assumed HRTP's outstanding balances on the loans and notes payable of \$11,893,000 with interest rates ranging from 4.75% to 9.00%. The loans and notes payable are collateralized by a security interest in the property, plant, and equipment acquired from HRTP, as well as any rights, interest and other tangible assets relating to such property. At June 30, 2002, the loans and notes payable amounted to \$11,616,000.

In June 2001, the HHSC entered into a \$700,000 term loan agreement with a local bank to finance the balance of the amount owing under the HHSC's guarantee of an \$800,000 loan made by the local bank to West Kauai Community Development Corporation. The loan agreement bears interest at the bank's prime rate (6.75% at June 30, 2002) and amounted to \$375,000 at June 30, 2002.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

Debt service requirements to maturity on notes, mortgages and installment contracts payable for fiscal years ending June 30 are aggregated below, for Components Units – University of Hawaii, HCDCH, and HHSC (amounts expressed in thousands):

	<u>Total Principal Required</u>		<u>Total Interest</u>		<u>Total Amount Required</u>
Fiscal year:					
2003	\$ 1,280	\$	1,098	\$	2,378
2004	829		1,039		1,868
2005	836		999		1,835
2006	783		961		1,744
2007	780		928		1,708
2008 – 2012	2,438		4,165		6,603
2013 – 2017	2,440		3,472		5,912
2018 – 2022	3,048		2,571		5,619
2023 – 2027	7,571		1,274		8,845
2028 – 2032	1,236		183		1,419
2033 – 2037	1,038		17		1,055
2038 – 2042	1,257		6		1,263
2043 – 2047	1,556		1		1,557
	<u>\$ 25,092</u>	\$	<u>16,714</u>	\$	<u>41,806</u>

(7) 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 – University of Hawaii 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, 1998; 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 CD, issued February 1, 1993; Series CF, issued July 1, 1993; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; Series CQ, issued October 1, 1997; and Series CS, issued April 1, 1998, contain call provisions (call prices range from 100 to 103). Stated interest rates range from 4.00% to 8.00%.

In August 2001, the State issued \$300,000,000 of general obligation bonds, Series CV, dated August 1, 2001, with interest rates ranging from 4.80% to 5.50%. Bonds maturing after August 1, 2011 are subject to redemption at the option of the State at any time on and after August 1, 2011 at 100% of the principal amount to be redeemed plus accrued interest to the redemption date. The bonds were issued for the purpose of financing public improvement projects.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

In August 2001, the State issued \$156,750,000 of general obligation refunding bonds, Series CW, dated August 1, 2001, with interest rates ranging from 3.40% to 5.50%. Bonds maturing after August 1, 2011 are subject to redemption at the option of the State at any time on and after August 1, 2011 at 100% of the principal amount to be redeemed plus accrued interest to the redemption date. The bonds were issued for the purpose of refunding certain outstanding general obligation bonds in order to reduce debt service payable on the State's general obligation bonds.

In February 2002, the State issued \$250,000,000 of general obligation bonds, Series CX, dated February 15, 2002, with interest rates ranging from 3.60% to 5.50%. Bonds maturing after February 1, 2012 are subject to redemption at the option of the State at any time on and after August 1, 2011 at 100% of the principal amount to be redeemed plus accrued interest to the redemption date. The bonds were issued for the purpose of financing public improvement projects.

In February 2002, the State issued \$319,290,000 of general obligation refunding bonds, Series CY, dated February 15, 2002, with interest rates ranging from 3.60% to 5.75%. The Series CY bonds are not subject to redemption prior to maturity. The bonds were issued for the purpose of refunding certain outstanding general obligation bonds in order to reduce debt service payable on the State's general obligation bonds.

At June 30, 2002, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable		\$	2,251,085
Noncallable			<u>1,333,863</u>
Total general obligation bonds outstanding			3,584,948
Less amount recorded as a liability of:			
Proprietary Funds (business-type activities), including \$456 payable from restricted assets	\$	955	
Component Unit – University of Hawaii		<u>15,992</u>	
			<u>16,947</u>
Amount recorded in the governmental activities of the Primary Government	\$		<u><u>3,568,001</u></u>

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

A summary of general obligation bonds outstanding by series as of June 30, 2002 follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Amount Outstanding
X	August 1, 1972	4.000%	August 1, 2002 – 2007	\$ 1,665
BL	December 6, 1988	7.481% – 7.681%	December 1, 2002, 2005 – 2008	20,315
BQ	November 28, 1989	7.100% – 7.150%	December 1, 2005 – 2009	22,223
BW	March 1, 1992	6.250% – 6.400%	March 1, 2006 – 2012	38,885
BZ	October 1, 1992	5.800% – 6.000%	October 1, 2005 – 2012	100,000
CA	January 1, 1993	5.375% – 8.000%	January 1, 2003, 2005 – 2013	50,000
CB	January 1, 1993	5.375% – 5.750%	January 1, 2003 – 2008	49,770
CC	February 1, 1993	5.000% – 5.125%	February 1, 2003 – 2009	167,420
CD	February 1, 1993	5.000%	February 1, 2003	17,240
CF	July 1, 1993	4.000%	July 1, 2002	17,525
CG	July 1, 1993	4.600% – 5.000%	July 1, 2002 – 2006	6,720
CH	November 1, 1993	4.200% – 6.000%	November 1, 2002 – 2013	166,660
CI	November 1, 1993	4.200% – 4.900%	November 1, 2002 – 2010	190,135
CJ	January 1, 1995	5.700%	January 1, 2003	14,890
CK	September 1, 1995	5.000%	September 1, 2005 – 2006	11,110
CL	March 1, 1996	5.000% – 6.000%	March 1, 2003, 2006 – 2011, 2013 – 2016	55,550
CM	December 1, 1996	6.000% – 6.500%	December 1, 2005 – 2016	99,990
CN	March 1, 1997	5.250% – 6.250%	March 1, 2003 – 2015, 2017	306,180
CO	March 1, 1997	4.750% – 6.000%	September 1, 2002 – 2010, March 1, 2003	187,430
CP	October 1, 1997	5.000% – 5.500%	October 1, 2002 – 2017	185,815
CQ	October 1, 1997	4.250% – 5.000%	October 1, 2002 – 2004	37,070
CR	April 1, 1998	4.750% – 6.000%	April 1, 2003 – 2018	300,000
CS	April 1, 1998	5.000% – 5.250%	April 1, 2003 – 2009	336,620
CT	September 15, 1999	5.250% – 5.750%	September 1, 2005 – 2012	118,715
CU	October 15, 2000	4.600% – 5.750%	October 1, 2005 – 2013	56,980
CV	August 1, 2001	4.800% – 5.500%	August 1, 2005 – 2021	300,000
CW	August 1, 2001	3.400% – 5.500%	August 1, 2005 – 2015	156,750
CX	February 15, 2002	3.600% – 5.500%	February 1, 2007 – 2022	250,000
CY	February 15, 2002	3.600% – 5.750%	February 1, 2007 – 2015	319,290
				<u>\$ 3,584,948</u>

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

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

	Principal	Interest	Total
Fiscal year:			
2003	\$ 236,580	\$ 192,876	\$ 429,456
2004	178,020	175,251	353,271
2005	189,040	166,053	355,093
2006	268,089	174,303	442,392
2007	315,830	162,439	478,269
2008 – 2012	1,345,424	529,878	1,875,302
2013 – 2017	790,370	170,577	960,947
2018 – 2022	261,595	33,782	295,377
	\$ 3,584,948	\$ 1,605,159	\$ 5,190,107

In prior fiscal years, 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, 2002, \$750,584,637 of bonds outstanding are 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, 2002 was \$269,109,187,000.

At June 30, 2002, general obligation bonds authorized but unissued was approximately \$527,114,000.

(8) REVENUE BONDS PAYABLE

A. Governmental Activities

On October 25, 2001, the Department of Transportation – Highways Division (Highways) issued \$70,000,000 of revenue bonds, Series of 2001. The bonds bear interest at rates ranging from 3.75% to 5.375% and are payable semi-annually on January 1 and July 1 through July 2022.

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

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

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

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

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

On September 1, 1993, Highways issued \$75,000,000 in State of Hawaii Highway revenue bonds, Series of 1993. The bonds bear interest at rates ranging from 2.60% to 5.00% and mature in increasing annual installments through fiscal 2013.

The proceeds of the 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.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2003	\$ 9,115	\$ 14,871	\$ 23,986
2004	11,790	14,379	26,169
2005	12,335	13,829	26,164
2006	12,890	13,254	26,144
2007	13,490	12,645	26,135
2008 – 2012	77,720	51,925	129,645
2013 – 2017	90,015	31,928	121,943
2018 – 2022	65,240	7,768	73,008
2023	5,400	135	5,535
	<u>\$ 297,995</u>	<u>\$ 160,734</u>	<u>\$ 458,729</u>

B. Business-Type Activities

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

Airports System Revenue Bonds

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

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Notes to Basic Financial Statements

June 30, 2002

The following is a summary of Airports system revenue bonds issued and outstanding at June 30, 2002 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
1993, refunding	4.00 – 6.45%	2013	\$ 131,035	\$ 98,980
1994, first refunding	4.15 – 5.60%	2004	63,455	30,150
1994, second refunding	4.40 – 5.85%	2004	79,070	8,680
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
			<u>\$ 984,695</u>	<u>836,755</u>
Add unamortized premium				17,803
Less:				
Unamortized discount				(1,375)
Deferred loss on refunding				(21,900)
Current portion				<u>(27,185)</u>
Noncurrent portion				<u>\$ 804,098</u>

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, 2002, \$199,818,000 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 Western Airlines, Inc. in 1975 (merged with Delta Airlines, Inc. in 1987), with Continental Airlines, Inc. in July 1990 and November 1997, and with Caterair International Corporation in December 1990. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of \$2,300,000, \$16,600,000, \$25,255,000, 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 \$41,665,000 at June 30, 2002.

The following is a summary of pertinent information on Airports special facility revenue bonds at June 30, 2002:

\$2,300,000 Issue

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

\$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.

\$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption on or after November 15, 2007, at the option of Airports, upon the request of Continental Airlines, Inc., at prices ranging from 101 to 100, depending on the dates of redemption, or at 100 plus interest if the facilities are destroyed or damaged extensively.

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

\$6,600,000 Issue

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

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

Harbors Revenue Bonds

The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from 102-1/2 to 100.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

The following is a summary of the Harbors revenue bonds as of June 30, 2002 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current		Noncurrent
				Principal Due July 1, 2002	Installment Payments Due in Anticipation of Principal Payments on July 1, 2003	
1992	July 1, 2019	5.10 – 6.50%	\$ 19,450	\$ 550	\$ —	\$ —
1992	July 1, 2008	4.75 – 6.20%	13,195	1,045	—	—
1993	July 1, 2008	4.50 – 6.40%	16,525	1,135	1,190	7,020
1994	July 1, 2024	5.50 – 6.25%	54,010	2,075	2,215	48,110
1997	July 1, 2027	3.95 – 5.75%	56,290	430	445	53,870
2000	July 1, 2029	4.50 – 6.00%	79,405	1,840	1,935	70,320
2002	July 1, 2019	3.00 – 5.50%	24,420	340	1,860	22,220
			<u>\$ 263,295</u>	<u>7,415</u>	<u>7,645</u>	<u>201,540</u>
Less:						
				—	(208)	(2,743)
				—	—	(3,999)
				<u>\$ 7,415</u>	<u>7,437</u>	<u>194,798</u>

Harbors Special Facility Revenue Bonds

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

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2003	\$ 28,015	\$ 62,429	\$ 90,444
2004	29,790	60,827	90,617
2005	45,460	59,173	104,633
2006	51,835	56,531	108,366
2007	54,740	53,563	108,303
2008 – 2012	199,505	227,552	427,057
2013 – 2017	331,730	153,300	485,030
2018 – 2022	282,305	53,985	336,290
2023 – 2027	28,610	11,589	40,199
2028 – 2032	24,930	883	25,813
	<u>\$ 1,076,920</u>	<u>\$ 739,832</u>	<u>\$ 1,816,752</u>

C. Component Units

University of Hawaii Revenue Bonds

The University of Hawaii’s revenue bonds are payable solely from and collateralized by the revenues of the UH and are not supported by the full faith and credit of the State. All of the revenue bond obligations of the University of Hawaii have provisions for early redemption at the option of the Board of Regents.

The University of Hawaii’s revenue bonds payable at June 30, 2002 were as follows (amounts expressed in thousands):

	<u>Series</u>	<u>Date Issued</u>	<u>Authorized</u>	<u>Outstanding amount</u>
Student Housing System at Manoa (interest rate, 3.00%)	2001A	December 19, 2001	\$ 655	\$ 655
Student Housing System at Manoa and Telecommunications System (interest rate, 3.00% to 5.25%)	2001B	December 19, 2001	18,665	18,665
John A. Burns School of Medicine (interest rate, 2.70% to 5.50%)	2002A	June 27, 2002	150,000	150,000
			<u>\$ 169,320</u>	<u>\$ 169,320</u>

STATE OF HAWAII

Notes to Basic Financial Statements

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HCDCH Revenue Bonds

The HCDCH revenue bonds payable at June 30, 2002 were as follows (amounts expressed in thousands):

<u>Series</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Outstanding Amount</u>
Single Family Mortgage Purchase Revenue Bonds:			
1991 Series A	6.55% to 7.10%	2004 – 2026	\$ 14,065
1991 Series B	6.90% to 7.00%	2013 – 2032	19,635
1994 Series A	4.95% to 6.00%	2010 – 2027	106,915
1994 Series B	5.75% to 5.90%	2011 – 2028	87,285
1997 Series A	4.45% to 5.75%	2003 – 2031	87,395
1997 Series B	4.45% to 5.45%	2004 – 2018	45,400
1998 Series A	4.25% to 5.40%	2008 – 2031	134,735
1998 Series B	5.30%	2020 – 2029	11,085
1998 Series C	5.35%	2020 – 2021	4,060
2000 Series A	5.30% to 6.38%	2003 – 2033	105,835
2000 Series B	6.00%	2014 – 2016	1,980
2002 Series A	2.05% to 5.38%	2004 – 2034	34,965
2002 Series B	5.25%	2027 – 2029	1,810
Multifamily Housing Revenue Bonds:			
1999 Series	6.3%	2035	3,700
2000 Series	5.00% to 5.75%	2012 – 2036	27,180
2002 Series	6.75%	2018	3,395
Rental Housing System Revenue Bonds:			
1989 Series A	Variable	2025	14,900
1990 Series A	Variable	2026	32,400
1990 Series A	Variable	2026	34,600
1993 Series A	4.80% to 5.70%	2006 – 2019	11,175
State of Hawaii Affordable Rental Housing Program Revenue Bonds:			
1993 Series A	Variable	2028	30,500
1995 Series A	6.00% to 6.10%	2016 – 2031	6,835
University of Hawaii Faculty Housing Program Revenue Bonds:			
1995 Series	4.45% to 5.70%	2007 – 2026	16,150
			<u>836,000</u>
Less Deferred Refunding Amount			<u>(1,812)</u>
			<u>\$ 834,188</u>

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

The State Legislature has enacted various acts which authorized the issuance of HCDCH revenue bonds. Through June 30, 2002, \$1,941,523,000 of revenue bonds have been issued. The revenue bonds are payable solely from and secured solely by the revenues and other monies and assets of the revenue bond funds and other assets of the HCDCH pledged under the indentures.

During fiscal 1998, the HCDCH, through its Single-Family Mortgage Purchase Revenue Bond Fund, issued \$325,490,000 of Single-Family Mortgage Purchase revenue bonds. The bonds were issued to provide funds to purchase single pool mortgage-backed securities and to effect redemptions of certain bonds previously issued by the HCDCH. As a result, those bonds were considered to be in-substance defeased, and the liability for those bonds is no longer reported. The remaining unamortized deferred refunding cost amounted to approximately \$1,813,000 at June 30, 2002. This difference is recorded as a deduction from revenue bonds payable and is being charged to operations through fiscal 2029.

In June 2000, the HCDCH, through its Single-Family Mortgage Purchase Revenue Bond Fund, issued \$106,785,000 of 2000 Series A and \$1,980,000 of 2000 Series B Single-Family Mortgage Purchase revenue bonds. The 2000 Series bonds were issued to provide funds to purchase single pool mortgage-backed securities and to affect a redemption of certain bonds previously issued by the HCDCH. The net proceeds of \$8,765,000 that were earmarked for the redemption of bonds were used to purchase repurchase agreements. Those repurchase agreements were deposited in irrevocable trusts to provide for the redemption of portions of the 1998 Series A, 1997 Series A, 1994 Series A, 1991 Series A and B, and 1990 Series A bonds, by July 1, 2000. As a result, those bonds were considered to be in-substance defeased, and the liability for those bonds is no longer reported. The fiscal 2000 advanced refunding resulted in an accounting loss of approximately \$30,000. This difference is recorded as a deduction from revenue bonds payable and is being charged to operations through fiscal 2008. The HCDCH completed the advanced refunding to reduce its total debt service payments over the next 30 years by approximately \$880,000 and to obtain economic gains of approximately \$370,000.

The University of Hawaii Faculty Housing Program revenue bonds of \$17,680,000 were issued on November 1, 1995 by the HCDCH on behalf of the UH. The UH pays the principal and interest to the HCDCH pursuant to a capital lease agreement. Under the lease and sublease agreement (Agreement), the HCDCH leases the land under the housing project from the UH for an annual rental of \$1 and then subleases the leased land, buildings and improvements and equipment back to the UH. The UH will make certain lease rental payments to the HCDCH, including amounts sufficient to pay the principal, premium, if any, and interest on the bonds as the same become due and payable. The Agreement expires on June 30, 2026. Upon expiration of the Agreement, the ownership of the buildings and improvements and equipment will revert to the UH.

The following lists the components of the HCDCH's net investment in financing lease as of June 30, 2002 (amounts expressed in thousands):

Total minimum lease payments to be received	\$	32,536
Less unearned interest income		<u>(14,376)</u>
Net investment in direct financing lease	\$	<u>18,160</u>

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Notes to Basic Financial Statements

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See note 12 describing the UH's capital lease obligation related to this Agreement. The difference between the HCDCH's net investment in financing lease and the UH's capital lease obligation is the result of differences in the HCDCH's implicit interest rate and the interest rate on the revenue bonds described above, and the accounting treatment related to a \$2,450,000 payment from the UH to the HCDCH.

The future minimum lease payments to be received during the subsequent five years are as follows (amounts expressed in thousands):

Fiscal year ending June 30:	
2003	\$ 1,237
2004	1,236
2005	1,238
2006	1,235
2007	1,235
	\$ 6,181
	\$ 6,181

During the fiscal year ended June 30, 2002, early redemptions totaled \$37,315,000.

Debt service requirements to maturity on the Component Units' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

	Principal	Interest	Total
Fiscal year:			
2003	\$ 14,162	\$ 45,245	\$ 59,407
2004	13,685	56,163	69,848
2005	17,490	51,313	68,803
2006	18,640	50,526	69,166
2007	19,850	49,654	69,504
2008 – 2012	123,135	225,203	348,338
2013 – 2017	191,918	189,308	381,226
2018 – 2022	198,350	142,909	341,259
2023 – 2027	226,590	88,480	315,070
2028 – 2032	162,397	27,369	189,766
2033 – 2037	19,103	896	19,999
	\$ 1,005,320	\$ 927,066	\$ 1,932,386
	\$ 1,005,320	\$ 927,066	\$ 1,932,386

D. Revenue Bonds Authorized But Unissued

At June 30, 2002, revenue bonds authorized but unissued was approximately \$2,608,835,000.

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June 30, 2002

E. 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, 2002 amounted to \$1,351,949,000. At June 30, 2002, special purpose revenue bonds of \$1,171,040,000 were authorized but unissued.

F. 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, 2002 amounted to \$5,135,000.

(9) CHANGES IN LONG-TERM LIABILITIES

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

A. Primary Government

	Governmental Activities				
	Balance, July 1, 2001	Additions	Deductions	Total	Due within one year
General obligation bonds payable (note 7)	\$ 3,225,635	\$ 1,026,040	\$ 683,674	\$ 3,568,001	\$ 233,262
Accrued vacation payable	141,010	93,933	83,460	151,483	52,933
Revenue bonds payable (note 8)	231,295	72,770	6,070	297,995	9,115
Reserve for losses and loss adjustment costs (note 16)	84,400	42,000	28,000	98,400	63,900
Claims and judgments payable	341,308	—	75,708	265,600	30,000
Capital lease obligations (note 12)	73,177	—	2,777	70,400	2,895
Total	<u>\$ 4,096,825</u>	<u>\$ 1,234,743</u>	<u>\$ 879,689</u>	<u>\$ 4,451,879</u>	<u>\$ 392,105</u>

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Notes to Basic Financial Statements

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	Business-Type Activities				
	Balance, July 1, 2001	Additions	Deductions	Balance, June 30, 2002	Due within one year
General obligation bonds payable (note 7)	\$ 1,799	\$ 2	\$ 846	\$ 955	\$ 274
Accrued vacation and retirement benefits payable	6,884	369	—	7,253	2,143
Revenue bonds payable (note 8)	1,160,872	24,420	79,244	1,106,048	42,857
Reserve for losses and loss adjustment costs	4,100	—	—	4,100	837
	<u>1,173,655</u>	<u>24,791</u>	<u>80,090</u>	<u>1,118,356</u>	<u>46,111</u>
Less:					
Unamortized net discount	(3,621)	—	(670)	(2,951)	—
Deferred amount on refunding	(3,084)	(1,185)	(270)	(3,999)	—
	<u>\$ 1,166,950</u>	<u>23,606</u>	<u>79,150</u>	<u>1,111,406</u>	<u>46,111</u>

B. Component Units

	Component Units				
	Balance, July 1, 2001	Additions	Deductions	Balance, June 30, 2002	Due within one year
General obligation bonds payable (note 7)	\$ 17,423	\$ —	\$ 1,431	\$ 15,992	\$ 2,588
Notes, mortgages, and installment contracts payable (note 6)	24,424	2,075	1,407	25,092	1,280
Accrued vacation and retirement benefits payable	56,601	16,495	12,875	60,221	15,409
Revenue bonds payable (note 8)	862,418	209,500	66,598	1,005,320	13,976
Reserve for losses and loss adjustment costs	9,860	3,433	3,397	9,896	3,784
Capital lease obligations (note 12)	29,001	15,445	4,209	40,237	7,382
Deferred commitment fees	6,330	54	—	6,384	644
	<u>1,006,057</u>	<u>247,002</u>	<u>89,917</u>	<u>1,163,142</u>	<u>45,063</u>
Less deferred amount on refunding	(1,898)	(87)	173	(1,812)	—
	<u>\$ 1,004,159</u>	<u>\$ 246,915</u>	<u>\$ 89,744</u>	<u>\$ 1,161,330</u>	<u>\$ 45,063</u>

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Notes to Basic Financial Statements

June 30, 2002

(10) INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2002 (amounts expressed in thousands):

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund:		
Capital Projects Fund	\$ 89,900	—
Nonmajor Governmental Funds	51,000	79
University of Hawaii	6,000	11,739
HCDCH	—	3
	<u>146,900</u>	<u>11,821</u>
Capital Projects Fund:		
General Fund	—	89,900
Harbors	1,232	—
	<u>1,232</u>	<u>89,900</u>
Nonmajor Governmental Funds:		
General Fund	79	51,000
	<u>79</u>	<u>51,000</u>
Proprietary Funds:		
Harbors:		
Capital Projects Fund	—	1,232
	<u>—</u>	<u>1,232</u>
Component Units:		
University of Hawaii:		
General Fund	11,739	6,000
	<u>11,739</u>	<u>6,000</u>
HCDCH:		
General Fund	3	—
	<u>3</u>	<u>—</u>
	<u>\$ 159,953</u>	<u>\$ 159,953</u>

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

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Notes to Basic Financial Statements

June 30, 2002

(11) 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, 2002, transfers by fund were as follows (amounts expressed in thousands):

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund:		
Nonmajor Governmental Funds	\$ 6,652	\$ 334,244
Capital Projects Fund:		
Nonmajor Governmental Funds	88,008	6,414
Fiduciary Funds	—	30,000
	<u>88,008</u>	<u>36,414</u>
Nonmajor Governmental Funds:		
General Fund	334,244	6,652
Capital Projects Fund	6,414	88,008
Airports	—	17,103
Fiduciary Funds	293	—
	<u>340,951</u>	<u>111,763</u>
Proprietary Funds:		
Airports:		
Nonmajor Governmental Funds	17,103	—
Fiduciary Funds:		
Private-Purpose Trust Fund:		
Capital Projects Fund	30,000	—
Agency Funds – Other:		
Nonmajor Governmental Funds	—	293
	<u>30,000</u>	<u>293</u>
	<u>\$ 482,714</u>	<u>\$ 482,714</u>

The General Fund transferred approximately \$314,900,000 to the Nonmajor Governmental Funds for Debt Service payments and approximately \$19,400,000 to subsidize various Special Fund programs. Approximately \$88,000,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects. The Capital Projects Fund transferred \$30,000,000 to the Fiduciary Funds to satisfy the obligation established by Act 14, SLH of 1995.

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Notes to Basic Financial Statements

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(12) LEASES

A. Lease Commitments

Governmental Activities

The State leases office facilities and equipment under various operating leases expiring through fiscal 2022. Future minimum lease commitments for noncancelable operating leases as of June 30, 2002 were as follows (amounts expressed in thousands):

Fiscal year ending June 30:	
2003	\$ 7,452
2004	5,994
2005	3,697
2006	2,423
2007	1,460
2008 – 2012	3,896
2013 – 2017	3,891
2018 – 2022	3,891
2023 – 2027	311
2028 – 2032	37
Total future minimum lease payments	\$ <u>33,052</u>

Rent expenditures for operating leases for the fiscal year ended June 30, 2002 amounted to approximately \$45,000,000.

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.

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Notes to Basic Financial Statements

June 30, 2002

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

Fiscal year ending June 30:		
2003	\$	6,349
2004		6,354
2005		6,351
2006		6,357
2007		6,352
2008 – 2012		31,753
2013 – 2017		31,758
2018 – 2022		<u>10,248</u>
Total future minimum lease payments		105,522
Less amount representing interest		<u>(35,122)</u>
Present value of net minimum lease payments		<u>\$ 70,400</u>

Component Units

The Component Units lease land and facilities under various operating leases expiring through fiscal 2056. Future minimum lease commitments for noncancelable operating leases as of June 30, 2002 were as follows (amounts expressed in thousands):

Fiscal year ending June 30:		
2003	\$	603
2004		614
2005		625
2006		636
2007		648
Thereafter		<u>38,865</u>
Total future minimum lease payments		<u>\$ 41,991</u>

Rent expenditures for the fiscal year ended June 30, 2002 amounted to approximately \$667,000.

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

University of Hawaii – Capital Lease

As of June 30, 2002, future minimum lease commitments for the capital lease between the UH and the HCDCH related to the University of Hawaii Faculty Housing Program revenue bonds, including interest of \$13,313,000, were as follows (amounts expressed in thousands):

Fiscal year ending June 30:		
2003	\$	1,237
2004		1,236
2005		1,239
2006		1,235
2007		1,235
2008 – 2012		6,164
2013 – 2017		6,143
2018 – 2022		6,111
2023 – 2027		4,863
Total future minimum lease payments	\$	<u><u>29,463</u></u>

HHSC – Capital Lease

As of June 30, 2002, future minimum lease commitments for the capital lease between the HHSC and Academic Capital LLC, including interest of \$6,106,000, were as follows (amounts expressed in thousands):

Fiscal year ending June 30:		
2003	\$	8,995
2004		8,249
2005		6,387
2006		3,305
2007		1,469
2008 – 2012		1,788
Total future minimum lease payments	\$	<u><u>30,193</u></u>

B. Lease Rentals

Proprietary Fund Type – Enterprise Funds

In response to the September 11, 2001 terrorist attacks, the Governor issued a proclamation declaring an economic emergency under the authority granted in Act 15, Third Special SLH of 2001. Under Act 15, the Governor was authorized to grant certain relief to businesses adversely affected by the terrorist attacks. Among the powers granted to the Governor was the authority to waive landing fees and Airports system support charges as well as suspend, waive, or defer certain contract obligations owed to the State.

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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 for fiscal 1999, 1998, 1997, and 1996 into the PAUCF. Net excess payments for fiscal 2000 were transferred to the PAUCF in October 2001. Airports then paid \$1,143,350 out of the PAUCF to the signatory airlines in fiscal 2002.

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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 \$3,322,490 for fiscal 2002.

Airports – System Rates and Charges

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

- Landing fees, net of aviation fuel tax credits, amounted to \$14,565,475 for fiscal 2002 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 \$22,976,350 for fiscal 2002. The State waived the signatory airlines' underpayment of nonexclusive joint-use premise charges of \$3,557,938. 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. For fiscal 2002, non-signatory airlines revenue was applied as a credit in calculating the joint-use premise charges and international arrivals building charges.
- Exclusive use premise charges amounted to \$26,718,579 for fiscal 2002 and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to \$15,664,316 for fiscal 2002.
- Airports system support charges amounted to \$391,640 for fiscal 2002. 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.

Pursuant to the proclamation issued by the Governor declaring an economic emergency, landing fees and Airports system support charges were waived from September 13, 2001 through April 1, 2002.

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 45 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, 2002 was approximately \$66,031,000.

Concession fees revenues from the DFS Group L.P. (DFS) concession contract accounted for approximately 48% of total concession fees revenues for the fiscal year ended June 30, 2002. The DFS concession contract, effective June 1, 2002, provides for payment of 30% of gross sales attributable to on-airport premises against 20% of the minimum annual guarantee payments

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aggregating \$300,000,000 over the five-year contract and 22.5% of gross sales attributable to off-airport premises against 80% of the minimum annual guarantee payments aggregating \$300,000,000 over the five-year contract. The DFS retail concession contract, effective March 15, 2002, provides for payment of 20% of gross sales against minimum guarantee payments aggregating \$47,250,000 over the five-year contract.

The DFS concession contracts provide for quarterly advance payments due on March 1, June 1, September 1, and December 1 of each year. DFS was not able to make the advance payment of \$17,300,000 that was due on June 1, 2002. DFS has since requested Airports to provide rent relief. The issue is currently being reviewed by the DOT.

Pursuant to the proclamation by the Governor declaring an economic emergency, Airports, under the approval from the Governor, established the Airport Concession Relief Program (Program). The Program, effective September 11, 2001 through April 30, 2002, granted relief to qualified airport concessionaires in the form of a limited waiver of the minimum annual rent payable under the concession agreements. During such time of the waiver of the minimum annual payments, the concessionaires continued to pay their required percentage rents.

To be eligible to participate in the Program, concessionaires must have met the following four requirements: (1) hold an existing contract on September 11, 2001; (2) prove they suffered significant losses since September 11, evidenced by at least a 15% decline in business volume after consideration of insurance and federal benefits received; (3) agree to submit a weekly report on daily sales, remit percentage rent payment for estimated sales on the first of each month, and submit all reports in accordance with the terms of the concessionaire's contract; and (4) be in good standing on September 11, 2001 and remain in good standing for the time period of the waiver. The total relief granted to qualified concessionaires approximated \$26,100,000.

Harbors – Aloha Tower Complex Development

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

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer and entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement) with the developer and Harbors. Harbors continues to operate the harbor facilities at Piers 8, 9 and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal and to reimburse Harbors for all losses in revenues and increased expenses which may be incurred by Harbors. The ATDC and the developer have agreed to offset reimbursements due to Harbors for losses in revenues during the construction period, with certain work performed by the developer to repair the structure of Piers 8 through 11, the cost of which would otherwise be incurred by Harbors. The developer is entitled to offset the cost of repairs,

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not to exceed \$1.1 million, against its obligation to reimburse Harbors for losses in revenues. The first phase of the Aloha Tower complex development has been completed.

The loss in revenues for fiscal 2002 amounted to \$1,696,000, and has been included in Harbors' rental revenues. As of June 30, 2002, the amount due to Harbors was \$4,561,000.

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.

Minimum future rentals to be received under direct financing leases as of June 30, 2002 consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Fiscal year ending June 30:			
2003	\$ 3,544	\$ 949	\$ 4,493
2004	3,511	949	4,460
2005	3,601	949	4,550
2006	3,477	949	4,426
2007	3,432	949	4,381
Thereafter	66,109	21,875	87,984
	<u>\$ 83,674</u>	<u>\$ 26,620</u>	<u>\$ 110,294</u>

Component Unit – HCDCH

Component Unit – HCDCH leases land to developers and home buyers. The leases are generally for 55 years with the last 25 years' lease rent negotiated based on the fair market value of the land.

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The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Enterprise Funds and Component Unit – HCDCH as of June 30, 2002 (amounts expressed in thousands):

	Enterprise Funds			Component Unit
	Airports	Harbors	Total	HCDCH
Fiscal year ending June 30:				
2003	\$ 84,969	\$ 8,409	\$ 93,378	\$ 324
2004	83,322	8,417	91,739	324
2005	83,096	8,375	91,471	284
2006	75,107	8,248	83,355	203
2007	12,849	7,719	20,568	181
	<u>\$ 339,343</u>	<u>\$ 41,168</u>	<u>\$ 380,511</u>	<u>\$ 1,316</u>

C. Net Investment in Direct Financing Lease

Certain leases of state-owned special facilities to parties engaged in airline and maritime operations are accounted for as direct financing leases. At June 30, 2002, net direct financing leases consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Total minimum lease payments receivable	\$ 83,674	\$ 26,620	\$ 110,294
Estimated unguaranteed residual value	—	3,600	3,600
Less amount representing interest	(45,618)	(11,580)	(57,198)
	<u>38,056</u>	<u>18,640</u>	<u>56,696</u>
Cash with trustee and other	3,888	—	3,888
	<u>\$ 41,944</u>	<u>\$ 18,640</u>	<u>\$ 60,584</u>

(13) 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.

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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 19 years from July 1, 1997.

The State's contribution requirements as of June 30, 2002, 2001, and 2000 were approximately \$113,984,000, \$7,690,000, and \$7,320,000, respectively. The State contributed 100% of its required contributions for those years. Changes in salary growth assumptions and investment earnings pursuant to Act 100, SLH of 1999, decreased the June 30, 2002 and 2001 required contributions. Covered payroll for the fiscal year ended June 30, 2002 was approximately \$1,733,613,000.

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.

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Notes to Basic Financial Statements

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There are currently approximately 22,500 state retirants receiving such benefits. Free life insurance coverage for retirants and free dental coverage for dependents under age 19 are also available. Retirants covered by the medical portion of Medicare are eligible to receive a partial reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2002, expenditures of \$119,247,000 were recognized for post-retirement health care and life insurance benefits, approximately \$29,416,000 of which is attributable to the Component Units.

(14) 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 7). At June 30, 2002, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:		
Economic Development	\$	339,871
Highways		118,682
Natural Resources		9,987
Agriculture		8,592
All Other		7,724
Administrative Support		2,227
	\$	<u>487,083</u>

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2002, accumulated sick leave approximately \$1,076,774,000.

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, 2002.

Notes to Basic Financial Statements

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B. Proprietary Fund Type – Enterprise Funds

Construction and Service Contracts

At June 30, 2002, the Enterprise Funds had commitments of approximately \$125,771,000 for construction and service contracts.

C. Component Units – Enterprise Funds

Construction and Service Contracts

At June 30, 2002, the HCDCH had commitments of approximately \$24,169,000 for construction and service contracts. In addition, the HCDCH has authorization to provide approximately \$38,159,000 in interim construction loans relating to such contracts.

Loan Commitments and Guarantee

The HCDCH had outstanding commitments to purchase loans from participating lenders of approximately \$50,300,000 at June 30, 2002. In addition, the HCDCH has committed to provide maximum rental assistance subsidies of approximately \$41,500,000 on various projects.

The HCDCH also has an agreement to guarantee up to \$40,000,000 of mortgage loans held by the ERS. Under the agreement, the HCDCH guarantees that upon the 120th day of any delinquency or default, it will either cure the arrearage of principal and interest or repurchase the delinquent loan. At June 30, 2002, approximately \$1,276,000 in mortgage loans sold to the ERS were covered by the mortgage loan guarantee.

The HCDCH has another agreement to provide interim construction financing of approximately \$67,000,000 subject to the satisfaction of certain terms and conditions of the agreement. The term of the loan matures 48 months from the effective date of the agreement and accrues interest at 7.50%. In fiscal 2001, a request by the developer to amend the agreement was approved by the HCDCH. The major amendments include reduction in the number of units and acres of the development, the land purchase price, reduction to the interim construction financing to \$42,000,000, and the extension for the execution of the loan agreement to November 2002. In January 2002, the HCDCH and the developer executed the loan agreement and entered into an Amended and Restated Development Agreement (Development Agreement), whereby, the HCDCH will sell to the developer the parcel of land known as Kapolei Village 7 for \$2,570,000. The purchase price without interest will be paid from the net proceeds from the sale of a unit to an individual buyer. The HCDCH will convey the title to the buyers provided that certain events, as detailed in the Development Agreement, have occurred.

Development Costs

At June 30, 2002, the HCDCH has approved funding of development costs for various projects of approximately \$108,600,000, of which approximately \$52,500,000 has been expended, net of approximately \$13,123,000 of reimbursements from the County of Maui and the DOT.

Notes to Basic Financial Statements

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Third-Party Payor Settlements

The estimated third-party payor settlements of the HHSC included in other accrued liabilities in the accompanying statement of net assets as of June 30, 2002 are based on preliminary estimates. Such amounts are subject to adjustments in future periods as final settlements are determined.

Reinsurance Agreements

In the normal course of business, the HHRF seeks to reduce the loss that may arise in the event of a hurricane that causes unfavorable underwriting results by reinsuring under contracts with reinsurers. The HHRF was covered under five excess of loss agreements with reinsurers to be indemnified with respect to the net excess liability as a result of any loss or losses which may be ascribed to hurricane coverage for property. Although the HHRF obtains reinsurance, the HHRF is not relieved of its primary obligation to the policy holder in a reinsurance transaction. The HHRF performs due diligence procedures to ensure that amounts due from unrelated reinsurers are collectible.

The HHRF's reinsurance program provided for a total of \$785 million for any one loss occurrence in excess of the HHRF's Maximum Industry Loss Assessment (MILA). Coverage was available for multiple loss occurrences up to a maximum of two times the available limit for each loss occurrence. The \$785 million of reinsurance was divided into five layers comprised of \$52 million, \$103 million, \$130 million, \$250 million, and \$250 million layers. The first layer provided \$52 million in excess of the MILA. The second layer provided \$103 million in excess of the MILA plus \$52 million. The third layer provided \$130 million in excess of the MILA plus \$155 million. The fourth layer provided \$250 million in excess of the MILA plus \$285 million. The fifth layer provided \$250 million in excess of the MILA plus \$535 million. Reinsurance was also purchased for premiums required to reinstate limits under these reinsurance contracts to their original amounts.

The terms of the first layer, second layer, third layer, and reinstatement reinsurance contracts expired on June 1, 2002, and have not been renewed as of June 30, 2002. The terms of the fourth layer and fifth layer reinsurance contracts expired on December 1, 2001, and have not been renewed as of June 30, 2002.

Net premiums earned have been reduced for amounts ceded to reinsurers by \$8,893,028 for the fiscal year ended June 30, 2002.

D. 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, 2002, 2001, and 2000 approximated \$6,811,000, \$7,620,000, and \$6,200,000, respectively.

Notes to Basic Financial Statements

June 30, 2002

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, 2002, the State has received approximately \$45,063,000. The State is to receive proceeds from this settlement in January and April of each year through 2003 and thereafter on April 15 of each year.

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 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 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)), 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 OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

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 that Act 304 was effectively repealed by its own terms, and that there were no juridically 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 legislature session, and the State's payments of 20% of "revenue" were discontinued as of the first quarter in fiscal 2002.

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

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

On April 2, 1996, the First Circuit Court denied the Defendants' motion for partial summary judgment which sought a ruling from the court that the State has the authority to alienate ceded lands. On March 12, 1998, the Defendants filed another motion (Motion to Dismiss Certain Counts and for Partial Summary Judgment) which the court heard on July 9, 1998 and denied on August 27, 1998. On September 3, 1998, the Defendants filed a Motion for Leave to File Interlocutory Appeal from Order Denying Motion. This motion was heard on September 24, 1998, and was denied on

Notes to Basic Financial Statements

June 30, 2002

October 7, 1998. Trial for this concluded on December 4, 2001. The court has taken the case under advisement.

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*.

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

Department of Education and Department of Health

Felix v. Cayetano, Civil No. 93-00367 (U.S. District Court for the District of Hawaii). This case involves the State's responsibility under federal law to provide mental health services as a related service to children and adolescents who need such services to benefit from special education. After the U.S. District Court granted partial summary judgment as to liability in the Plaintiff's 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. During this period, the level and quality of services provided by the State will be monitored to determine whether the State can sustain the levels of performance previously demonstrated.

Notes to Basic Financial Statements

June 30, 2002

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, 2002.

To date, the State has transferred approximately \$210,000,000 to the Hawaiian Home Lands Trust Fund. The State's remaining \$390,000,000 obligation discounted at 6% assuming annual payments of \$30,000,000 over the remaining term of the obligation is approximately \$265,580,000. This amount is included in claims and judgments payable in the accompanying statement of activities.

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 and allocated costs incurred to date of those parcels of land were approximately \$22,278,000 and \$11,927,000, respectively.

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.

Notes to Basic Financial Statements

June 30, 2002

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.

On March 30, 2000, the three named-plantiffs 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.

Notes to Basic Financial Statements

June 30, 2002

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.

(15) CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND EXTRAORDINARY ITEM

During fiscal 2002, the UH revised its inventory capitalization policy to omit supplies held for department use. The effect of this change in accounting principle was that \$1,191,314 of previously capitalized inventory was recorded as a decrease in fiscal 2002's change in net assets.

During fiscal 2002, the HCDCH redeemed revenue bonds totaling \$37,315,000. The related unamortized bond issue costs of \$278,000 were written off when the early redemptions were approved and are reflected as an extraordinary item in the statement of activities and the statement of revenues, expenditures, and changes in net assets – Component Units. The revenue bonds redeemed were not refunded.

(16) RISK MANAGEMENT

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, establishes accounting and financial reporting standards for risk financing and insurance related activities of state governmental entities and requires the recordation of 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 are as follows:

Notes to Basic Financial Statements

June 30, 2002

A. Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible is \$250,000 per occurrence. The deductible for windstorm coverage is 2% of loss subject to a \$250,000 per occurrence minimum. The limit of loss per occurrence is \$25,000,000. This policy includes earthquake, named hurricane, and flood coverage whose limit of loss per occurrence is \$10,000,000 with a deductible of 2% of loss subject to a \$250,000 minimum and a \$10,000,000 annual aggregate.

The State also has a crime insurance policy for various types of coverages with a minimum limit of loss of \$1,000,000 per occurrence and a maximum limit of \$10,000,000 with \$250,000 deductibles. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

B. General Liability (including Torts)

Claims under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$2,000,000 deductible per occurrence. The annual aggregate per occurrence is \$15,000,000.

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 \$30,000,000 per occurrence and in the aggregate.

D. Self-Insured Risks

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

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2002

E. Reserve for Losses

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2002 and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30 (amounts expressed in thousands):

	<u>2002</u>	<u>2001</u>
Unpaid losses and loss adjustment costs at the beginning of the fiscal year	\$ 84,400	\$ 82,000
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	30,200	38,200
Increase (decrease) in provision for insured events of prior fiscal years	11,800	(7,700)
Total incurred losses and loss adjustment costs	<u>42,000</u>	<u>30,500</u>
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(4,500)	(4,500)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(23,500)	(23,600)
Total payments	<u>(28,000)</u>	<u>(28,100)</u>
Unpaid losses and loss adjustment costs at the end of the fiscal year	<u>\$ 98,400</u>	<u>\$ 84,400</u>

(17) SUBSEQUENT EVENTS

A. General Obligation Bond Issue

In November 2002, the State issued \$300,000,000 of general obligation bonds, Series CZ, dated November 13, 2002, with interest rates ranging from 2.65% to 5.50%. The bonds begin to mature on July 1, 2007 and were issued for the purpose of financing public improvement projects or to fund the payment to the Hawaiian Home Lands Trust Fund.

B. Iraqi War

The tourism industry is considered to be one of the primary components of the State's economy. The effects of the Iraqi war which began on March 19, 2003 have negatively impacted Hawaii's tourism industry in the short-term. A prolonged downturn in Hawaii's tourism industry may have a significant impact on the State's financial position.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

Wasterwater – 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, occupational safety and health and unemployment compensation.

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

Hawaiian Programs – accounts for programs related to the betterment 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, 2002

(Amounts in thousands)

<u>ASSETS</u>	<u>Special Revenue Funds</u>						
	<u>Highways</u>	<u>Natural Resources</u>	<u>Wastewater</u>	<u>Health</u>	<u>Med-Quest</u>	<u>Human Services</u>	<u>Education</u>
Cash and short-term investments	\$ 5,360	\$ 20,877	\$ 2,051	\$ 7,881	\$ 7,969	\$ 7,255	\$ 23,188
Receivables:							
Taxes	—	—	—	—	—	—	—
Notes and loans, net	—	19,433	170,359	—	—	—	—
Federal government	—	—	—	—	51,000	—	—
Other	4,219	—	—	—	—	—	—
Due from other funds	—	—	140	—	—	—	—
Investments	208,080	81,351	83,993	65,314	—	17,503	39,837
Other assets	—	1	—	—	—	—	—
Total Assets	\$ 217,659	\$ 121,662	\$ 256,543	\$ 73,195	\$ 58,969	\$ 24,758	\$ 63,025
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Vouchers and contracts payable	\$ 2,046	\$ 610	\$ 3	\$ 9,148	\$ 31	\$ 1,065	\$ 2,099
Other accrued liabilities	226	395	45	954	—	3,255	1,950
Due to other funds	—	—	—	140	51,000	—	—
Payable from restricted assets – matured bonds and interest payable	—	—	—	—	—	—	—
Total Liabilities	2,272	1,005	48	10,242	51,031	4,320	4,049
Fund Balances:							
Reserved for:							
Continuing appropriations	130,192	15,141	5,790	35,356	7,320	12,164	18,056
Receivables and advances	—	19,433	164,546	—	—	—	—
Bond redemption and other	—	28,650	—	—	—	—	—
Unreserved:							
Designated for future expenditures	23,235	21,978	119,327	—	—	—	579
Undesignated	61,960	35,455	(33,168)	27,597	618	8,274	40,341
Total Fund Balances	215,387	120,657	256,495	62,953	7,938	20,438	58,976
Total Liabilities and Fund Balances	\$ 217,659	\$ 121,662	\$ 256,543	\$ 73,195	\$ 58,969	\$ 24,758	\$ 63,025

See accompanying independent auditors' report.

Special Revenue Funds							Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
Economic Development	Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total			
\$ 5,588	\$ 4,570	\$ 4,294	\$ 19,018	\$ 3,921	\$ 6,509	118,481	\$ 1,110		\$ 119,591
7,200	—	—	—	—	—	7,200	—		7,200
9,450	—	—	48,626	—	—	247,868	—		247,868
—	—	—	—	—	—	51,000	—		51,000
—	—	—	—	—	—	4,219	—		4,219
—	—	—	—	—	—	140	79	(140)	79
79,611	35,440	70,673	40,027	106,348	14,171	842,348	—		842,348
—	—	—	—	—	—	1	—		1
<u>\$ 101,849</u>	<u>\$ 40,010</u>	<u>\$ 74,967</u>	<u>\$ 107,671</u>	<u>\$ 110,269</u>	<u>\$ 20,680</u>	<u>\$ 1,271,257</u>	<u>\$ 1,189</u>	<u>\$ (140)</u>	<u>\$ 1,272,306</u>
\$ 3,656	\$ 1,188	\$ 211	\$ 181	\$ 544	\$ 745	\$ 21,527	\$ —	\$ —	\$ 21,527
883	1,004	537	122	838	413	10,622	—		10,622
—	—	—	—	—	—	51,140	—	(140)	51,000
—	—	—	—	—	—	—	1,110		1,110
<u>4,539</u>	<u>2,192</u>	<u>748</u>	<u>303</u>	<u>1,382</u>	<u>1,158</u>	<u>83,289</u>	<u>1,110</u>	<u>(140)</u>	<u>84,259</u>
20,142	851	5,477	1,115	8,370	5,643	265,617	79		265,696
9,450	—	—	48,626	—	—	242,055	—		242,055
—	—	—	—	—	—	28,650	—		28,650
7,700	—	—	430	44,736	13,879	231,864	—		231,864
60,018	36,967	68,742	57,197	55,781	—	419,782	—		419,782
97,310	37,818	74,219	107,368	108,887	19,522	1,187,968	79	—	1,188,047
<u>\$ 101,849</u>	<u>\$ 40,010</u>	<u>\$ 74,967</u>	<u>\$ 107,671</u>	<u>\$ 110,269</u>	<u>\$ 20,680</u>	<u>\$ 1,271,257</u>	<u>\$ 1,189</u>	<u>\$ (140)</u>	<u>\$ 1,272,306</u>

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Wastewater	Health	Med-Quest	Human Services	Education
Revenues:							
Taxes:							
General excise tax	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Transient accommodations tax	—	—	—	—	—	—	—
Tobacco and liquor taxes	—	—	—	—	—	—	—
Liquid fuel tax	73,046	220	—	—	—	—	—
Tax on premiums of insurance companies	—	—	—	—	—	—	—
Vehicle weight and registration tax	41,969	—	—	—	—	—	—
Rental motor/tour vehicle surcharge	36,054	—	—	—	—	—	—
Others	—	2,517	—	1,784	—	—	—
Total Taxes	151,069	2,737	—	1,784	—	—	—
Interest and investment income	11,734	4,224	7,081	2,541	—	195	591
Charges for current services	1,485	12,714	2,989	5,888	176	186	25,399
Intergovernmental	104,732	16,493	21,670	71,986	426,750	350,860	158,016
Rentals	2	2,096	—	—	—	—	49
Fines, forfeitures, and penalties	1,140	145	—	692	—	—	—
Licenses and fees	1,750	501	—	541	—	103	628
Revenues from private sources	22,507	14	—	45,026	74	—	151
Other	5,191	11,984	14,845	404	14,153	1,221	4,805
Total Revenues	299,610	50,908	46,585	128,862	441,153	352,565	189,639
Expenditures:							
Current:							
General government	—	1,963	—	—	—	—	—
Public safety	—	1,061	—	—	—	—	—
Highways	116,384	22	—	—	—	—	—
Conservation of natural resources	—	26,717	—	—	—	—	—
Health	—	—	33,336	108,842	—	—	—
Welfare	—	—	—	—	446,979	363,421	—
Lower education	—	—	—	—	—	—	184,676
Other education	—	—	—	—	—	10,364	—
Culture and recreation	—	4,131	—	—	—	—	1,618
Urban redevelopment and housing	—	—	—	—	—	—	—
Economic development and assistance	—	3,960	—	—	—	—	—
Debt service	—	—	—	—	—	—	—
Total Expenditures	116,384	37,854	33,336	108,842	446,979	373,785	186,294
Excess (Deficiency) of Revenues Over Expenditures	183,226	13,054	13,249	20,020	(5,826)	(21,220)	3,345
Other Financing Sources (Uses):							
Transfers in	—	1,752	3,645	36	6,020	15,584	890
Transfers out	(153,590)	(617)	—	(33,971)	—	(125)	(88)
Other	—	14	164,546	(145,519)	—	—	1
Total Other Financing Sources (Uses)	(153,590)	1,149	168,191	(179,454)	6,020	15,459	803
Net Change in Fund Balances	29,636	14,203	181,440	(159,434)	194	(5,761)	4,148
Fund Balances – Beginning, as restated	185,751	106,454	75,055	222,387	7,744	26,199	54,828
Fund Balances – Ending	\$ 215,387	\$ 120,657	\$ 256,495	\$ 62,953	\$ 7,938	\$ 20,438	\$ 58,976

See accompanying independent auditors' report.

Economic Development	Special Revenue Funds					Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
	Employment	Regulatory	Hawaiian Programs	Administrative Support	All Other				
\$ —	\$ —	\$ —	\$ —	\$ 9,752	\$ —	\$ 9,752	\$ —	\$ —	\$ 9,752
59,943	—	—	—	—	—	59,943	—	—	59,943
—	—	—	—	1,078	—	1,078	—	—	1,078
—	—	—	—	—	1,395	74,661	—	—	74,661
—	—	638	—	—	—	638	—	—	638
—	—	—	—	—	—	41,969	—	—	41,969
—	—	—	—	—	—	36,054	—	—	36,054
—	2,019	2,000	—	—	—	8,320	—	—	8,320
59,943	2,019	2,638	—	10,830	1,395	232,415	—	—	232,415
3,916	1,377	2,679	834	1,452	490	37,114	—	—	37,114
5,234	22,056	19,951	4	32,852	12,336	141,270	—	—	141,270
10,698	60,392	—	23	20,391	13,682	1,255,693	—	—	1,255,693
3,003	—	—	5,687	5,883	673	17,393	—	—	17,393
—	466	1,345	—	304	1,816	5,908	—	—	5,908
—	—	8,404	—	11,187	385	23,499	—	—	23,499
—	—	—	—	350	7	68,129	—	—	68,129
2,949	347	189	4,269	9,408	6,020	75,785	—	—	75,785
85,743	86,657	35,206	10,817	92,657	36,804	1,857,206	—	—	1,857,206
—	—	7	—	47,869	1,242	51,081	—	—	51,081
—	2,384	25,791	—	10,689	19,534	59,459	—	—	59,459
—	—	—	—	1	—	116,407	—	—	116,407
—	—	—	—	142	—	26,859	—	—	26,859
—	—	—	—	53	—	142,231	—	—	142,231
—	—	—	—	8,795	504	819,699	—	—	819,699
—	—	—	—	5,200	—	189,876	—	—	189,876
—	—	—	—	167	—	10,531	—	—	10,531
—	—	—	—	10,865	7,231	23,845	—	—	23,845
—	—	—	10,094	—	—	10,094	—	—	10,094
96,449	81,035	—	—	76	—	181,520	—	—	181,520
—	—	—	—	—	—	—	362,600	—	362,600
96,449	83,419	25,798	10,094	83,857	28,511	1,631,602	362,600	—	1,994,202
(10,706)	3,238	9,408	723	8,800	8,293	225,604	(362,600)	—	(136,996)
215	1,000	2,356	—	38,957	2,882	73,337	361,741	(94,127)	340,951
(49)	(299)	(2,895)	(552)	(11,148)	(2,556)	(205,890)	—	94,127	(111,763)
(521)	—	1	2,596	—	—	21,118	—	—	21,118
(355)	701	(538)	2,044	27,809	326	(111,435)	361,741	—	250,306
(11,061)	3,939	8,870	2,767	36,609	8,619	114,169	(859)	—	113,310
108,371	33,879	65,349	104,601	72,278	10,903	1,073,799	938	—	1,074,737
\$ 97,310	\$ 37,818	\$ 74,219	\$ 107,368	\$ 108,887	\$ 19,522	\$ 1,187,968	\$ 79	\$ —	\$ 1,188,047

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, 2002

(Amounts in thousands)

	Highways		
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ 70,665	\$ 73,046	\$ 2,381
Boating	—	—	—
Vehicle registration fee tax	17,647	17,461	(186)
State vehicle weight tax	24,586	24,508	(78)
Rental/tour vehicle surcharge tax	38,201	36,054	(2,147)
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Total taxes	<u>151,099</u>	<u>151,069</u>	<u>(30)</u>
Non-taxes:			
Interest and investment income	9,000	11,734	2,734
Charges for current services	917	1,485	568
Intergovernmental	111,823	104,732	(7,091)
Rentals	5	2	(3)
Fines, forfeitures, and penalties	1,203	1,140	(63)
Licenses and fees	1,768	1,750	(18)
Revenues from private sources	—	22,507	22,507
Other	—	26,696	26,696
Total non-taxes	<u>124,716</u>	<u>170,046</u>	<u>45,330</u>
Total Revenues	<u>275,815</u>	<u>321,115</u>	<u>45,300</u>
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	195,178	161,708	33,470
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	<u>195,178</u>	<u>161,708</u>	<u>33,470</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 80,637</u>	<u>\$ 159,407</u>	<u>\$ 78,770</u>

See accompanying independent auditors' report.

Natural Resources			Wastewater		
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ 250	\$ 220	\$ (30)	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
2,586	2,517	(69)	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
<u>2,836</u>	<u>2,737</u>	<u>(99)</u>	<u>—</u>	<u>—</u>	<u>—</u>
2,935	3,312	377	7,867	7,081	(786)
11,945	12,714	769	1,474	1,515	41
6,840	16,493	9,653	11,987	21,202	9,215
1,595	2,097	502	—	—	—
26	145	119	—	—	—
631	501	(130)	—	—	—
60	14	(46)	—	—	—
5,455	5,529	74	8,245	9,032	787
<u>29,487</u>	<u>40,805</u>	<u>11,318</u>	<u>29,573</u>	<u>38,830</u>	<u>9,257</u>
<u>32,323</u>	<u>43,542</u>	<u>11,219</u>	<u>29,573</u>	<u>38,830</u>	<u>9,257</u>
565	422	143	—	—	—
1,926	1,312	614	—	—	—
—	—	—	—	—	—
51,757	29,460	22,297	95,576	20,268	75,308
—	—	—	—	—	—
—	—	—	—	—	—
5,041	4,059	982	—	—	—
—	—	—	—	—	—
2,146	1,477	669	—	—	—
—	—	—	—	—	—
<u>61,435</u>	<u>36,730</u>	<u>24,705</u>	<u>95,576</u>	<u>20,268</u>	<u>75,308</u>
\$ <u>(29,112)</u>	\$ <u>6,812</u>	\$ <u>35,924</u>	\$ <u>(66,003)</u>	\$ <u>18,562</u>	\$ <u>84,565</u>

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	Health		
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	1,800	1,784	(16)
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Total taxes	<u>1,800</u>	<u>1,784</u>	<u>(16)</u>
Non-taxes:			
Interest and investment income	2,434	2,541	107
Charges for current services	9,916	7,362	(2,554)
Intergovernmental	84,018	72,454	(11,564)
Rentals	—	—	—
Fines, forfeitures, and penalties	642	692	50
Licenses and fees	424	540	116
Revenues from private sources	27,775	45,026	17,251
Other	77	4,085	4,008
Total non-taxes	<u>125,286</u>	<u>132,700</u>	<u>7,414</u>
Total Revenues	<u>127,086</u>	<u>134,484</u>	<u>7,398</u>
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	230,726	151,382	79,344
Welfare	—	—	—
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	—	—	—
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	<u>230,726</u>	<u>151,382</u>	<u>79,344</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (103,640)</u>	<u>\$ (16,898)</u>	<u>\$ 86,742</u>

See accompanying independent auditors' report.

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	Education		
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Total taxes	—	—	—
Non-taxes:			
Interest and investment income	41	591	550
Charges for current services	23,430	25,399	1,969
Intergovernmental	115,702	158,016	42,314
Rentals	—	49	49
Fines, forfeitures, and penalties	—	—	—
Licenses and fees	588	628	40
Revenues from private sources	600	151	(449)
Other	2,943	3,870	927
Total non-taxes	143,304	188,704	45,400
Total Revenues	143,304	188,704	45,400
Expenditures:			
General government	—	—	—
Public safety	—	—	—
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	—	—	—
Lower education	307,289	188,635	118,654
Other education	—	—	—
Culture and recreation	4,710	2,141	2,569
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	—	—	—
Total Expenditures	311,999	190,776	121,223
Excess (Deficiency) of Revenues over Expenditures	\$ (168,695)	\$ (2,072)	\$ 166,623

See accompanying independent auditors' report.

Economic Development			Employment		
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	1,815	2,019	204
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
75,305	59,743	(15,562)	—	—	—
<u>75,305</u>	<u>59,743</u>	<u>(15,562)</u>	<u>1,815</u>	<u>2,019</u>	<u>204</u>
2,476	3,916	1,440	1,040	1,377	337
5,675	5,234	(441)	17,800	22,056	4,256
9,840	10,698	858	48,787	60,392	11,605
3,378	3,003	(375)	—	—	—
—	—	—	430	466	36
400	3,163	2,763	—	—	—
1,166	—	(1,166)	6	10,071	10,065
<u>22,935</u>	<u>26,014</u>	<u>3,079</u>	<u>68,063</u>	<u>94,362</u>	<u>26,299</u>
<u>98,240</u>	<u>85,757</u>	<u>(12,483)</u>	<u>69,878</u>	<u>96,381</u>	<u>26,503</u>
—	—	—	—	—	—
100	—	100	3,673	2,378	1,295
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
151,031	93,876	57,155	115,335	88,871	26,464
<u>151,131</u>	<u>93,876</u>	<u>57,255</u>	<u>119,008</u>	<u>91,249</u>	<u>27,759</u>
\$ <u>(52,891)</u>	\$ <u>(8,119)</u>	\$ <u>44,772</u>	\$ <u>(49,130)</u>	\$ <u>5,132</u>	\$ <u>54,262</u>

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	Budget	Regulatory Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	—	—	—
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	2,500	2,000	(500)
Transient accommodations tax	250	638	388
Total taxes	2,750	2,638	(112)
Non-taxes:			
Interest and investment income	—	2,679	2,679
Charges for current services	21,800	19,951	(1,849)
Intergovernmental	—	—	—
Rentals	—	—	—
Fines, forfeitures, and penalties	500	1,345	845
Licenses and fees	7,682	8,404	722
Revenues from private sources	—	—	—
Other	2,609	2,545	(64)
Total non-taxes	32,591	34,924	2,333
Total Revenues	35,341	37,562	2,221
Expenditures:			
General government	—	—	—
Public safety	34,716	27,913	6,803
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	34,716	27,913	6,803
Excess (Deficiency) of Revenues over Expenditures	\$ 625	\$ 9,649	\$ 9,024

See accompanying independent auditors' report.

Hawaiian Programs			Administrative Support		
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	9,752	9,752
—	—	—	—	1,078	1,078
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	10,830	10,830
1,300	834	(466)	476	1,452	976
1	4	3	23,366	32,852	9,486
—	23	23	18,531	20,391	1,860
6,620	5,687	(933)	6,240	5,883	(357)
—	—	—	327	304	(23)
—	—	—	9,274	11,187	1,913
—	—	—	—	350	350
3,500	4,269	769	36,978	496,864	459,886
11,421	10,817	(604)	95,192	569,283	474,091
11,421	10,817	(604)	95,192	580,113	484,921
—	—	—	391,848	349,167	42,681
—	—	—	14,917	12,070	2,847
—	—	—	—	—	—
—	—	—	237	166	71
—	—	—	—	—	—
—	—	—	14,740	9,175	5,565
—	—	—	5,588	5,248	340
—	—	—	—	—	—
—	—	—	11,177	9,388	1,789
14,358	10,668	3,690	—	—	—
—	—	—	49	49	—
—	—	—	157,303	150,882	6,421
14,358	10,668	3,690	595,859	536,145	59,714
\$ (2,937)	\$ 149	\$ 3,086	\$ (500,667)	\$ 43,968	\$ 544,635

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, 2002

(Amounts in thousands)

	<u>Budget</u>	<u>All Other Actual (Budgetary Basis)</u>	<u>Variance – Favorable (Unfavorable)</u>
Revenues:			
Taxes:			
Liquid fuel tax:			
Highways	\$ —	\$ —	\$ —
Boating	1,300	1,395	95
Vehicle registration fee tax	—	—	—
State vehicle weight tax	—	—	—
Rental/tour vehicle surcharge tax	—	—	—
Employment and training fund assessment	—	—	—
General excise tax	—	—	—
Conveyances tax	—	—	—
Environmental response tax	—	—	—
Franchise tax	—	—	—
Transient accommodations tax	—	—	—
Total taxes	<u>1,300</u>	<u>1,395</u>	<u>95</u>
Non-taxes:			
Interest and investment income	252	490	238
Charges for current services	11,038	12,336	1,298
Intergovernmental	9,411	13,682	4,271
Rentals	115	673	558
Fines, forfeitures, and penalties	1,945	1,816	(129)
Licenses and fees	360	385	25
Revenues from private sources	—	7	7
Other	6,405	8,896	2,491
Total non-taxes	<u>29,526</u>	<u>38,285</u>	<u>8,759</u>
Total Revenues	<u>30,826</u>	<u>39,680</u>	<u>8,854</u>
Expenditures:			
General government	9,374	4,687	4,687
Public safety	32,953	18,871	14,082
Highways	—	—	—
Conservation of natural resources	—	—	—
Health	—	—	—
Welfare	850	412	438
Lower education	—	—	—
Other education	—	—	—
Culture and recreation	15,386	9,274	6,112
Urban redevelopment and housing	—	—	—
Economic development and assistance	—	—	—
Other	450	422	28
Total Expenditures	<u>59,013</u>	<u>33,666</u>	<u>25,347</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (28,187)</u>	<u>\$ 6,014</u>	<u>\$ 34,201</u>

See accompanying independent auditors' report.

	Total	
Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
\$ 70,915	\$ 73,266	\$ 2,351
1,300	1,395	95
17,647	17,461	(186)
24,586	24,508	(78)
38,201	36,054	(2,147)
1,815	2,019	204
—	9,752	9,752
2,586	3,595	1,009
1,800	1,784	(16)
2,500	2,000	(500)
75,555	60,381	(15,174)
<u>236,905</u>	<u>232,215</u>	<u>(4,690)</u>
27,821	36,202	8,381
127,362	141,270	13,908
1,061,733	1,052,793	(8,940)
17,953	17,394	(559)
5,073	5,908	835
21,027	23,498	2,471
28,835	71,292	42,457
68,234	608,835	540,601
<u>1,358,038</u>	<u>1,957,192</u>	<u>599,154</u>
<u>1,594,943</u>	<u>2,189,407</u>	<u>594,464</u>
401,787	354,276	47,511
88,285	62,544	25,741
195,178	161,708	33,470
51,994	29,626	22,368
326,302	171,650	154,652
699,413	619,257	80,156
312,877	193,883	118,994
10,046	8,326	1,720
36,314	24,862	11,452
14,358	10,668	3,690
268,561	184,273	84,288
157,753	151,304	6,449
<u>2,562,868</u>	<u>1,972,377</u>	<u>590,491</u>
\$ <u>(967,925)</u>	\$ <u>217,030</u>	\$ <u>1,184,955</u>

STATE OF HAWAII

Nonmajor Special Revenue Funds
Reconciliation of the Budgetary to GAAP Basis

June 30, 2002

(Amounts in thousands)

Excess of revenues over expenditures – actual (budgetary basis)	\$	217,030
Reserve for encumbrances at year-end*		174,308
Expenditures for liquidation of prior fiscal year encumbrances		(175,535)
Residual equity transfers		6,652
Accrued liabilities		(35,164)
Accrued revenues		59,431
Excess of revenues over expenditures – GAAP basis	\$	<u>246,722</u>

* Amounts reflect the encumbrance balances (included in continuing appropriations) for budgeted programs only.

See accompanying independent auditors' report.

STATE OF HAWAII

**Nonmajor Proprietary Funds
Combining Statement of Net Assets**

June 30, 2002

(Amounts in thousands)

	<u>Health Fund</u>	<u>Unemployment Compensation</u>	<u>Total Nonmajor Proprietary Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 7,701	\$ 160,138	\$ 167,839
Receivables – taxes	—	31,000	31,000
Investments	10,531	136,746	147,277
Total Assets	<u>18,232</u>	<u>327,884</u>	<u>346,116</u>
<u>LIABILITIES</u>			
Vouchers and contracts payable	47	—	47
Other accrued liabilities	18,083	—	18,083
Total Liabilities	<u>18,130</u>	<u>—</u>	<u>18,130</u>
<u>NET ASSETS</u>			
Net Assets – unrestricted	<u>\$ 102</u>	<u>\$ 327,884</u>	<u>\$ 327,986</u>

See accompanying independent auditors' report.

STATE OF HAWAII

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

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	<u>Health Fund</u>	<u>Unemployment Compensation</u>	<u>Total Nonmajor Proprietary Funds</u>
Operating Revenues:			
Unemployment compensation tax	\$ —	\$ 141,670	\$ 141,670
Employee benefits	969	—	969
Intergovernmental	—	24,048	24,048
Other	—	479	479
Total Operating Revenues	<u>969</u>	<u>166,197</u>	<u>167,166</u>
Operating Expenses:			
Unemployment compensation	—	213,682	213,682
Employee benefits	788	—	788
Total Operating Expenses	<u>788</u>	<u>213,682</u>	<u>214,470</u>
Operating Income (Loss)	181	(47,485)	(47,304)
Nonoperating Revenues – interest income	<u>—</u>	<u>20,641</u>	<u>20,641</u>
Change in Net Assets	181	(26,844)	(26,663)
Net Assets – Beginning	<u>(79)</u>	<u>354,728</u>	<u>354,649</u>
Net Assets – Ending	<u>\$ 102</u>	<u>\$ 327,884</u>	<u>\$ 327,986</u>

See accompanying independent auditors' report.

STATE OF HAWAII

Nonmajor Proprietary Funds
Combining Statement of Cash Flows

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	<u>Health Fund</u>	<u>Unemployment Compensation</u>	<u>Total Nonmajor Proprietary Funds</u>
Cash Flows from Operating Activities:			
Cash received from customers	\$ 409,925	\$ —	\$ 409,925
Cash received from taxes	—	141,670	141,670
Cash received from federal and local agencies	—	24,048	24,048
Cash paid for unemployment compensation	—	(213,682)	(213,682)
Cash paid for employee benefits	(444,115)	—	(444,115)
Other cash receipts	—	479	479
Net Cash Used in Operating Activities	<u>(34,190)</u>	<u>(47,485)</u>	<u>(81,675)</u>
Cash Flows from Investing Activities –			
Proceeds from sales and maturities of investments	36,951	—	36,951
Interest from investments	—	20,641	20,641
Net Cash Provided by Investing Activities	<u>36,951</u>	<u>20,641</u>	<u>57,592</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,761	(26,844)	(24,083)
Cash and Cash Equivalents – Beginning	<u>4,940</u>	<u>186,982</u>	<u>191,922</u>
Cash and Cash Equivalents – Ending	<u>\$ 7,701</u>	<u>\$ 160,138</u>	<u>\$ 167,839</u>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities:			
Operating income (loss)	\$ 181	\$ (47,485)	\$ (47,304)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Decrease in liabilities:			
Vouchers and contracts payable	(181)	—	(181)
Other accrued liabilities	(34,190)	—	(34,190)
Net cash used in operating activities	<u>\$ (34,190)</u>	<u>\$ (47,485)</u>	<u>\$ (81,675)</u>

See accompanying independent auditors' report.

STATE OF HAWAII

Fiduciary Funds
Combining Statement of Fiduciary Net Assets

June 30, 2002

(Amounts in thousands)

	Agency Funds			Total Agency Funds
	Tax Collections	Custodial	Other	
<u>ASSETS</u>				
Cash and short-term investments	\$ 7,378	\$ 64,185	\$ 18,079	\$ 89,642
Receivables:				
Taxes	—	—	8,400	8,400
Notes	—	—	105	105
Total Receivables	—	—	8,505	8,505
Investments:				
Repurchase agreements	—	38,248	15,422	53,670
Corporate stocks	—	—	7	7
Liquid asset funds	—	—	10	10
U.S. government securities	—	—	11	11
Total Investments	—	38,248	15,450	53,698
Total Assets	\$ 7,378	\$ 102,433	\$ 42,034	\$ 151,845
<u>LIABILITIES</u>				
Vouchers payable	\$ 2,834	\$ 214	\$ 1,451	\$ 4,499
Due to individuals, businesses, and counties	4,544	102,219	40,583	147,346
Total Liabilities	\$ 7,378	\$ 102,433	\$ 42,034	\$ 151,845

See accompanying independent auditors' report.

STATE OF HAWAII

Fiduciary Funds

Combining Statement of Changes in Assets and Liabilities

For the Fiscal Year Ended June 30, 2002

(Amounts in thousands)

	<u>Balance, July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2002</u>
Tax Collections:				
Assets:				
Cash and short-term investments	\$ 11,636	\$ 4,024,003	\$ (4,028,261)	\$ 7,378
Total Assets	<u>\$ 11,636</u>	<u>\$ 4,024,003</u>	<u>\$ (4,028,261)</u>	<u>\$ 7,378</u>
Liabilities:				
Vouchers payable	\$ 1	\$ 2,834	\$ (1)	\$ 2,834
Due to individuals, businesses, and counties	11,635	4,024,003	(4,031,094)	4,544
Total Liabilities	<u>\$ 11,636</u>	<u>\$ 4,026,837</u>	<u>\$ (4,031,095)</u>	<u>\$ 7,378</u>
Custodial:				
Assets:				
Cash and short-term investments	\$ 88,120	\$ 2,576,192	\$ (2,600,127)	\$ 64,185
Investments	71,427	38,248	(71,427)	38,248
Total Assets	<u>\$ 159,547</u>	<u>\$ 2,614,440</u>	<u>\$ (2,671,554)</u>	<u>\$ 102,433</u>
Liabilities:				
Vouchers payable	\$ 964	\$ 214	\$ (964)	\$ 214
Due to individuals, businesses, and counties	158,583	2,576,192	(2,632,556)	102,219
Total Liabilities	<u>\$ 159,547</u>	<u>\$ 2,576,406</u>	<u>\$ (2,633,520)</u>	<u>\$ 102,433</u>
Other:				
Assets:				
Cash and short-term investments	\$ 23,481	\$ 10,900	\$ (16,302)	\$ 18,079
Receivables	8,405	100	—	8,505
Investments	8,654	9,315	(2,519)	15,450
Total Assets	<u>\$ 40,540</u>	<u>\$ 20,315</u>	<u>\$ (18,821)</u>	<u>\$ 42,034</u>
Liabilities:				
Vouchers payable	\$ 728	\$ 1,016	\$ (293)	\$ 1,451
Due to individuals, businesses, and counties	39,812	19,954	(19,183)	40,583
Total Liabilities	<u>\$ 40,540</u>	<u>\$ 20,970</u>	<u>\$ (19,476)</u>	<u>\$ 42,034</u>
Total – All Agency Funds:				
Assets:				
Cash and short-term investments	\$ 123,237	\$ 6,611,095	\$ (6,644,690)	\$ 89,642
Receivables	8,405	100	—	8,505
Investments	80,081	47,563	(73,946)	53,698
Total Assets	<u>\$ 211,723</u>	<u>\$ 6,658,758</u>	<u>\$ (6,718,636)</u>	<u>\$ 151,845</u>
Liabilities:				
Vouchers payable	\$ 1,693	\$ 4,064	\$ (1,258)	\$ 4,499
Due to individuals, businesses, and counties	210,030	6,620,149	(6,682,833)	147,346
Total Liabilities	<u>\$ 211,723</u>	<u>\$ 6,624,213</u>	<u>\$ (6,684,091)</u>	<u>\$ 151,845</u>

See accompanying independent auditors' report.

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PART III: STATISTICAL SECTION

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,									
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Taxes:										
General excise	\$ 1,651	\$ 1,642	\$ 1,542	\$ 1,448	\$ 1,417	\$ 1,430	\$ 1,426	\$ 1,365	\$ 1,330	\$ 1,298
Income	1,082	1,187	1,132	1,110	1,128	1,023	1,046	959	1,006	951
Inheritance and estate	17	18	23	29	20	22	17	16	28	12
Liquor	39	38	39	39	39	38	38	38	39	39
Public service										
companies	93	135	119	121	120	114	104	101	92	86
Tobacco	65	55	42	42	36	36	40	35	33	32
Insurance companies										
premiums	69	72	69	53	87	75	85	64	173	68
Franchise	5	—	7	10	16	13	16	18	27	28
Transient accommodations	87	108	93	55	26	26	24	19	4	4
Liquid fuel	75	74	71	70	70	71	71	69	70	67
Motor vehicle	78	81	75	39	38	37	37	38	36	57
Hospital and nursing										
facility(1)	—	—	—	—	3	12	10	17	27	—
Other	13	13	14	34	32	34	33	33	32	7
Total taxes	<u>3,274</u>	<u>3,423</u>	<u>3,226</u>	<u>3,050</u>	<u>3,032</u>	<u>2,931</u>	<u>2,947</u>	<u>2,772</u>	<u>2,897</u>	<u>2,649</u>
Non-taxes:										
Interest and investment										
income	71	150	69	91	89	82	92	113	78	97
Charges for current										
services	165	236	240	220	233	207	204	254	208	237
Intergovernmental	1,258	1,120	1,070	1,091	1,080	1,170	1,128	835	833	795
Rentals	31	29	23	22	24	22	29	32	23	25
Fines, forfeitures										
and penalties	24	23	25	23	23	21	18	18	17	19
Licenses and fees	24	23	22	20	19	16	16	14	12	10
Other	253	146	165	134	90	118	116	128	95	70
Total Revenues – All Governmental Fund Types	<u>\$ 5,100</u>	<u>\$ 5,150</u>	<u>\$ 4,840</u>	<u>\$ 4,651</u>	<u>\$ 4,590</u>	<u>\$ 4,567</u>	<u>\$ 4,550</u>	<u>\$ 4,166</u>	<u>\$ 4,163</u>	<u>\$ 3,902</u>

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

See accompanying independent auditors' report.

STATE OF HAWAII

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

Last Ten Fiscal Years

(Amounts in millions)

Function	For the Fiscal Year Ended June 30,									
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
General government	\$ 474	483	\$ 442	\$ 489	\$ 413	\$ 404	\$ 404	\$ 423	\$ 432	\$ 521
Public safety	240	201	203	199	185	165	164	174	166	158
Highways	236	131	115	111	111	115	94	102	86	79
Conservation of natural resources	57	51	41	45	37	36	33	38	39	43
Health	500	431	399	386	329	311	279	328	309	285
Welfare	1,334	1,248	1,226	1,222	1,210	1,278	1,236	1,023	812	777
Education	2,134	1,050	1,035	1,007	949	888	891	920	868	831
Culture and recreation	68	57	56	52	52	55	57	66	60	61
Urban redevelopment and housing	12	10	10	11	15	21	26	30	14	19
Economic development and assistance	267	200	192	166	155	163	176	196	164	154
Social security and pension contributions	—	91	85	159	222	226	222	150	229	185
Intergovernmental	—	—	—	—	—	3	3	4	2	2
Debt service	363	402	384	390	406	426	416	345	321	294
Capital outlay	—	335	376	376	373	611	488	554	725	587
Other	—	13	9	28	28	20	16	11	18	32
Total Expenditures – All Governmental Fund Types	\$ <u>5,685</u>	\$ <u>4,703</u>	\$ <u>4,573</u>	\$ <u>4,641</u>	\$ <u>4,485</u>	\$ <u>4,722</u>	\$ <u>4,505</u>	\$ <u>4,364</u>	\$ <u>4,245</u>	\$ <u>4,028</u>

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Ratio of Net General Obligation Bonded Debt Per Capita

Last Ten Fiscal Years

(Amounts in thousands except ratio data)

<u>Fiscal Year</u>	<u>Population(1)</u>	<u>General Obligation Bonded Debt(2)(3)</u>	<u>Less Debt Service Monies Available(2)</u>	<u>Net General Obligation Bonded Debt</u>	<u>Net General Obligation Bonded Debt Per Capita</u>
2002	1,237	\$ 3,568,001	\$ 79	\$ 3,567,922	\$ 2,884
2001	1,224	3,225,635	110	3,225,525	2,635
2000	1,212	3,278,479	258	3,278,221	2,705
1999	1,186	3,166,880	223	3,166,657	2,670
1998	1,191	3,363,517	338	3,363,179	2,824
1997	1,192	3,075,862	435	3,075,427	2,580
1996	1,184	2,841,069	240	2,840,829	2,399
1995	1,179	2,901,651	165	2,901,486	2,461
1994	1,179	2,834,234	46	2,834,188	2,404
1993	1,178	2,726,654	534	2,726,120	2,314

(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 – University Funds 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)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Debt Service</u>	<u>Total General Expenditures</u>	<u>Ratio of Debt Service to General Expenditures</u>
2002	\$ 233,117	\$ 129,483	\$ 362,600	\$ 5,684,875	6.38%
2001	210,518	190,993	401,511	4,703,420	8.54
2000	193,075	190,497	383,572	4,572,956	8.39
1999	202,836	186,762	389,598	4,641,159	8.39
1998	231,756	174,577	406,333	4,485,334	9.06
1997	268,683	156,890	425,573	4,721,851	9.01
1996	260,156	155,888	416,044	4,504,746	9.24
1995	200,552	144,044	344,596	4,364,021	7.90
1994	169,277	151,753	321,030	4,245,217	7.56
1993	152,153	141,802	293,955	4,028,363	7.30

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Revenue Bond Coverage*

Last Ten Fiscal Years

(Amounts in thousands except coverage data)

Airports

Fiscal Year	Gross Revenues(1)	Operating Expenses(2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage(4)
				Principal	Interest (3)	Total	
2002	213,410	141,409	72,001	27,185	6,275	33,460	215%
2001	334,511	123,973	210,538	48,810	48,020	96,830	217
2000	332,264	135,125	197,139	52,120	53,046	105,166	187
1999	285,353	127,136	158,217	41,705	35,349	77,054	205
1998	294,078	125,007	169,071	37,100	39,416	76,516	221
1997	317,943	126,612	191,331	37,595	59,440	97,035	197
1996	314,647	120,632	194,015	42,578	59,245	101,823	191
1995	306,848	129,376	177,472	41,130	53,786	94,916	187
1994	284,343	133,351	150,992	29,380	58,842	88,222	171
1993	411,696	128,135	283,561	29,770	101,700	131,470	216

Harbors

Fiscal Year	Gross Revenues(5)	Operating Expenses(6)	Net Revenue Available for Debt Service	Debt Service Requirements	Additional Debt Service	Total	Coverage(7)
				During the Fiscal Year	Requirements		
2002	70,873	20,992	49,881	20,093	—	20,093	248%
2001	75,353	26,525	48,828	30,590	—	30,590	160
2000	68,931	21,917	47,014	31,347	—	31,347	150
1999	64,729	22,891	41,838	30,152	—	30,152	139
1998	65,659	24,348	41,311	16,815	—	16,815	246
1997	55,496	20,824	34,672	16,444	—	16,444	211
1996	52,791	20,568	32,223	15,686	—	15,686	205
1995	54,092	21,498	32,594	14,997	—	14,997	217
1994	53,364	22,264	31,100	12,956	—	12,956	240
1993	57,247	23,245	34,002	15,248	—	15,248	223

- (1) Total operating revenues plus interest income, exclusive of interest earned on investment in financing leases.
- (2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for major maintenance, renewal, and replacement, plus amounts required to be paid into the General Fund for general obligation bond requirements.
- (3) For fiscal 2002, Airports deposited \$43,042,000 of available funds into the Airport Revenue Fund for credit to the interest account. For fiscal 2001 and 2000, \$21,000,000 each year of available funds was credited to the interest account. The available funds reduced the amount of funds required pursuant to the provisions of Section 6.01 to be paid or credited during such year to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."
- (4) Airports revenue bond indentures require a minimum debt service coverage percentage of 125%.
- (5) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.
- (6) Total operating expenses other than depreciation less State of Hawaii surcharge for central service expenses.
- (7) Harbors revenue bond indentures require a minimum debt service coverage percentage of 135%.

Source:

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

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

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

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Legal Debt Margin

June 30, 2002

(Amounts in thousands)

Average General Fund revenues of the three preceding fiscal years ended June 30, 2000, 2001, and 2002	\$ 3,360,531
Constitutional debt limit percentage	<u>18.50%</u>
Constitutional debt limit for total principal and interest payable in a current or future year	621,698
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2009)	<u>487,048</u>
Legal debt margin	<u><u>\$ 134,650</u></u>

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

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Demographic Statistics

Last Ten Years

(Population amounts expressed in thousands)

<u>Year</u>	<u>Population(1)</u>	<u>Per Capita Income(2)</u>	<u>School Enrollment(3)</u>	<u>Unemployment Rate(4)</u>
2002	1,237	\$ NA	NA	4.40%
2001	1,224	NA	NA	4.40
2000	1,212	NA	NA	4.50
1999	1,186	27,544	185,860	5.60
1998	1,191	26,725	188,069	6.20
1997	1,192	26,241	189,887	6.40
1996	1,184	25,661	186,581	6.40
1995	1,179	25,584	183,795	5.90
1994	1,179	25,335	180,428	6.10
1993	1,178	25,026	177,806	4.30

(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. 2002 is based on data for the first 9 months.

N/A Not available for 2002, 2001, and 2000.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Bank Deposits

Last Ten Calendar Years

(Amounts in millions)

<u>Calendar Year</u>	<u>Bank Deposits</u>
2002	\$ NA
2001	15,763
2000	16,741
1999	16,107
1998	16,038
1997	14,541
1996	14,033
1995	13,149
1994	12,600
1993	12,940

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

N/A Not available for the calendar year 2002.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Ten Largest Private Employers

June 30, 2002

<u>Company</u>	<u>Industry</u>
Bank of Hawaii	Financial services
Hawaiian Airlines, Inc.	Air transportation
Hawaiian Electric Industries, Inc.	Utility, financial services
Kaiser Permanente Medical Care Program	Health care services
Kapiolani Health	Health care services
Kyo-ya Co., Ltd.	Hotel, food, retail sales, insurance
Macy's Department Stores	Retail sales
Outrigger Hotels & Resorts	Hotel
The Queen's Health Systems	Health care services
Verizon Hawaii, Inc.	Telecommunications

Listed alphabetically.

Source: Pacific Business News, *Book of Lists 2002*, December 2001.

See accompanying independent auditors' report.

STATE OF HAWAII

Schedule of Miscellaneous Statistics

June 30, 2002

Date of statehood	1959
Form of government	Legislative-Executive-Judicial
Number of state employees****	68,150
Area in square miles***	6,423
Miles of streets and highways**	4,256
Recreation and culture:	
Number of parks and historic sites****	69
Total acreage****	27,626
Number of libraries****	50
Public safety:	
Number of fire personnel****	1,774
Number of police personnel****	3,430
Sewage (millions of gallons)****	48,626
Water system:	
Number of services****	242,092
Consumption (millions of gallons)****	78,748
Education:	
Number of public schools*	246
Number of teachers*	11,629
Hospitals:	
Number of hospitals***	74
Number of beds***	7,759

**** Represents 2001 data

*** Represents 2000 data

** Represents 1999 data

* Represents 1995 data

Source: Internet (2001) revised as of September 30, 2001, 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.