STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

RUSS K. SAITO

COMPTROLLER

HAWAII

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FOR THE FISCAL YEAR
ENDED JUNE 30, 2008

RUSS K. SAITO
COMPTROLLER

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

STATE OF HAWAII

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PART I: INTRODUCTORY SECTION

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STATE OF HAWAII

Principal Officials for Finance-Related Functions

June 30, 2008

Russ K. Saito
Comptroller

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

Notes:

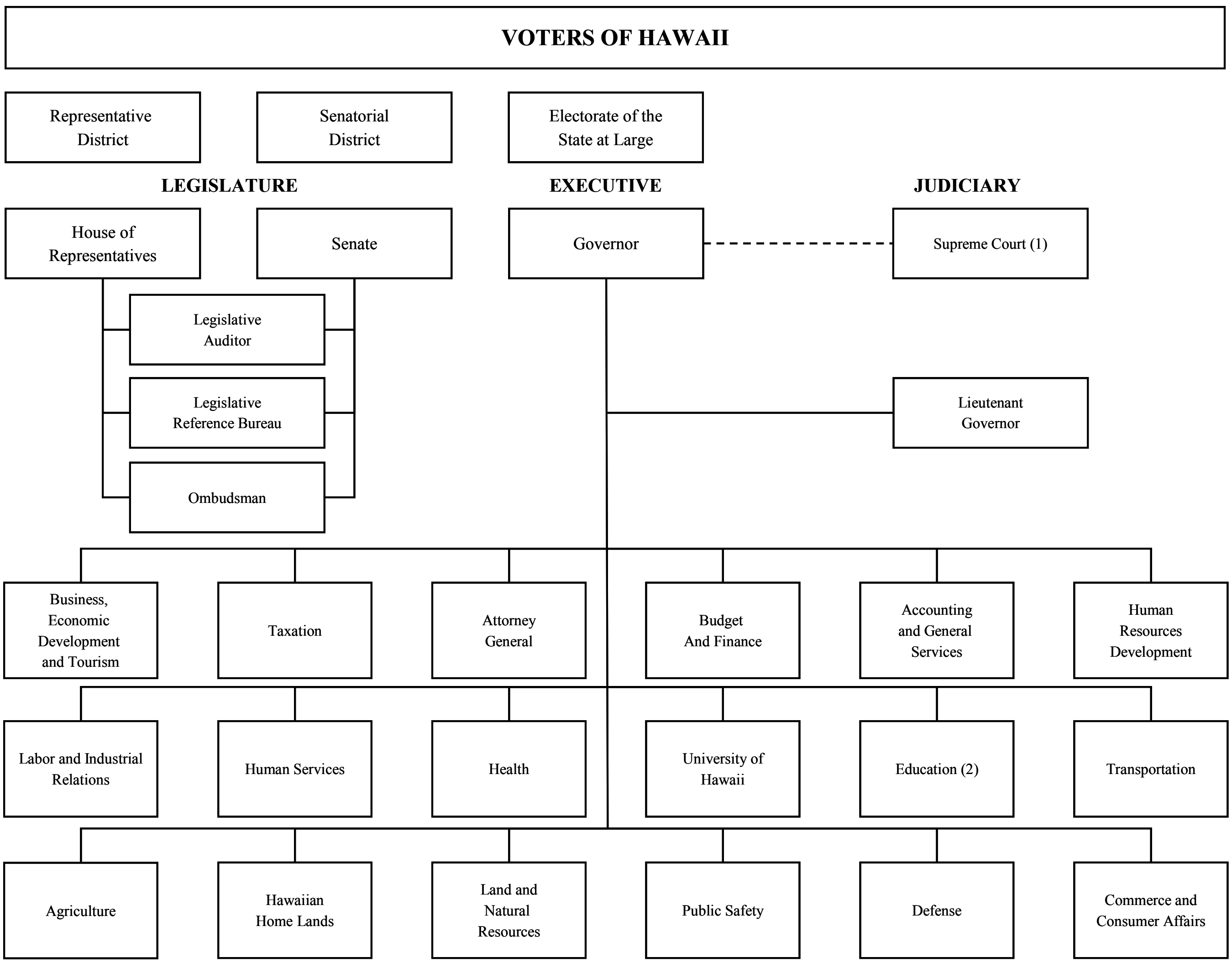
The Director of Finance is also department head of the Department of Budget and Finance.

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

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

STATE OF HAWAII
Organizational Chart

June 30, 2008



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

(2) The Board of Education is elected.

LINDA LINGLE
GOVERNOR

RUSS K. SAITO
Comptroller

BARBARA A. ANNIS
Deputy Comptroller

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

May 22, 2009

To the Honorable Governor of the State of Hawaii
To the Honorable Members of the Twenty-Fifth 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, 2008. This report has been prepared by the State's Department of Accounting and General Services. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. I believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

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

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

THE REPORTING ENTITY AND ITS SERVICES

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

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

FACTORS AFFECTING FINANCIAL CONDITION

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

State of the Economy

Overview

Most indicators of the State's economy showed no change or negative growth in 2008. Employment and job growth did not significantly change in 2008 from 2007. However, the increase in the civilian labor force raised the State’s unemployed rate. Visitor arrivals, visitor days and visitor expenditures all declined in 2008. Indicators of the State’s construction industry were down, with consecutive third and fourth quarter decreases in construction jobs.

Labor

Hawaii's total civilian employment averaged 634,800 persons during 2008, up .5% from 2007. Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 4.0% for 2008, significantly higher than the 2007 2.6% unemployment rate. Hawaii’s 2008 total civilian wage and salary jobs remained the same as 2007 at 630,500. In the fourth quarter of 2008, wage and salary jobs decreased 7,200 jobs or 1.1% from the fourth quarter of 2007. Government job increases were more than offset by private sector job losses, most notably transportation, warehousing and utilities; natural resources, mining and construction; accommodation; profession and business services; and arts, entertainment and recreation.

Taxes

Tax revenues distributed to the State's General Fund decreased $71.8 million or 1.5% during 2008 compared to 2007. Among its components, general excise and use tax (GET) collections decreased $53.0 million, or 2.0%, individual net income tax collections decreased $14.4 million or .9%, and transient accommodations tax (TAT) collections decreased $8.4 million, or 3.6%.

Personal Income

Total nominal personal income, not adjusted for inflation, increased $2.3 billion, or 4.8%, in the first nine months of 2008 compared to the same period of 2007. Among its components, the fastest growth was seen in personal current transfer receipts (9.9%), supplements to wages and salaries (5.2%), dividends, interest, and rent (4.4%) and wage and salary disbursements (4.1%). Contributions for government social insurance, which are subtracted from personal income, increased by 3.8%.

Prices

Honolulu's consumer price index (CPI) increased 4.3% for 2008, higher than a 3.8% increase for the United States (U.S.). The Honolulu increase was primarily due to increases in the food and beverages, other goods and services, and transportation components, which increased by 5.7%, 5.2% and 4.4%, respectively.

Recent Developments in Hawaii’s Major Industries

Visitor Industry

The number of visitors arriving by air decreased 10.9% in 2008 compared to 2007. Domestic arrivals (visitors on flights originating inside of the U.S.) declined 12.2% while international arrivals decreased 6.1%. Similarly, total visitor days (visitor arrivals multiplied by average length of stay) were down 8.8% in 2008 compared to 2007 and total visitor spending declined 11.4%. Statewide hotel occupancy rate averaged 70.4% in 2008, 4.6% lower than the average rate in 2007.

Construction

Hawaii's construction industry was one of the major contributors to job growth; however, in 2008 construction jobs decreased .1% compared to 2007. Consecutive quarterly construction job decreases in the third and fourth quarter of 2008 last occurred in the first quarter of 2002. The total value of new private building authorizations decreased for the second consecutive year, $678.9 million or 18.9% from 2007. Government contracts awarded totaled $953 million, a 9.6% increase from 2007.

Outlook for Hawaii’s Economy

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy expects both real (inflation-adjusted) Personal Income growth, and real state Gross Domestic Product (GDP) growth to decline in 2009.

The future condition of Hawaii's economy depends on the state of the mainland U.S. and Japanese economies. The February 2009 Blue Chip Economic Consensus Forecasts expected real GDP growth in 2009 to decline1.9% for the U.S. and 2.4% for Japan. In 2010, GDP growth is expected to be at 2.1% for the U.S. and 1.1% for Japan.

DBEDT expects that total visitor arrivals to Hawaii, visitor days and visitor expenditures will decrease in 2009. In 2009, visitor arrivals, visitor days and visitor expenditures are predicted to decrease 5.9%, 4.4% and 1.9%, respectively.

DBEDT expects total wage and salary jobs to decrease 1.3% in 2009. Real Personal Income is expected to decline .4% in 2009 with real GDP projected to decrease .2% in 2009.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 1.2% in 2009. The state GDP deflator is expected to grow 1.7% in 2009.

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 (GAAP) and to maintain accountability for assets.
3. Access to assets is permitted only in accordance with management's authorization.

Internal controls are designed to provide reasonable, but not absolute, assurance that the above objectives were accomplished. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. I believe that the State's internal controls are 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 2007, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

An allotment system and encumbrance accounting are utilized by the State for budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. Open encumbrances are reported as reservations of fund balances at June 30, 2008. 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.

RISK MANAGEMENT

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler & machinery coverage. The limit of loss per occurrence is $175,000,000, except for flood and earthquake which individually is a $175,000,000 aggregate loss and terrorism which is $50,000,000 per occurrence. The State also acquires general liability insurance, medical insurance, faithful performance of duty, and depositors' forgery insurance for state employees, but is self-insured for other perils, including workers' compensation and automobile losses. Expenditures for workers' compensation, automobile losses, and general liability (for amounts not covered by insurance) are appropriated annually.

EMPLOYEE UNION CONTRACTS

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

INDEPENDENT AUDIT

Although the State statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2008. The independent auditors' report has been included in Part II of this report.

CERTIFICATE OF ACHIEVEMENT

The 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, 2007. This was the nineteenth 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 GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year.

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

ACKNOWLEDGEMENTS

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

Respectfully submitted,

Russ K. Saito

RUSS K. SAITO
Comptroller, State of Hawaii

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Hawaii

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

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PART II: FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2008, 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 an opinion on the respective 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, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, and the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, and the Hawaii Community Development Authority, which are discretely presented component units. These financial statements reflect the following percentages of total assets and program revenues or additions for the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Program Revenues / Additions
Governmental Activities	0%	0%
Business-Type Activities	87%	84%
Aggregate Discretely Presented Component Units	91%	69%
Fiduciary Funds	34%	100%

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority (which contains a qualification as to the amounts due to the State of Hawaii, the effect of which, in our opinion, is not material in relation to the basic financial statements), the Hawaii Hurricane Relief Fund, and the Hawaii Community Development Authority, is based solely on the reports of the other auditors. The reports on the Employer-Union Health Benefits Trust Fund, and the Hawaii Community Development Authority contain an explanatory paragraph relating to the restatement of the fiscal year 2007 financial statements. The reports on the Department of Transportation – Airports Division, the University of Hawaii, and the Hawaii Tourism Authority contain an explanatory paragraph relating to the adoption of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective net assets or financial position of the governmental activities, 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, 2008, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, on pages 16 to 32, as well as the Schedules of Revenue and Expenditures – Budget and Actual (Budgetary Basis) and Schedules of Funding Progress for the Employer-Union Health Benefits Trust Fund and the Hawaii State Teachers Association Voluntary Employees Beneficiary Association Trust, on pages 120 to 125, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the State of Hawaii's management. We and other auditors 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 an opinion on the respective basic financial statements that collectively comprise the State of Hawaii's basic financial statements. The introductory section, combining and individual fund statements and schedules, and the statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the State of Hawaii's management. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections 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.

As discussed in Note 11 to the financial statements, the State of Hawaii adopted the provisions of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, on July 1, 2007.

As discussed in Note 15 to the financial statements, net assets and fund balance at June 30, 2007 have been restated.

Deloitte + Touche LLP

May 22, 2009

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, 2008. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3 – 7 of this report.

Restatements

Adjustments were made to the beginning net assets of the Government-Wide financial statements and the beginning fund balances of the Governmental Funds financial statements because of various misstatements. The restated balances have not been used for comparative purposes within this section.

Financial Highlights

Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2008, by $8.2 billion (net assets). Of this amount, $1.2 billion (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors. Net assets of governmental activities and business-type activities decreased by $726.0 million and $36.4 million respectively for a combined decrease of $762.4 million to the State from the prior fiscal year.

Fund Highlights

At June 30, 2008, the State's Governmental Funds reported combined ending fund balances of $1.9 billion, a decrease of $443.4 million from the prior fiscal year. Of this amount, $974.4 million, or 50.2%, of total fund balances was in the General Fund, and the remaining $966.9 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net assets at June 30, 2008, of $3.2 billion, a decrease of $36.4 million during the fiscal year.

Long-Term Liabilities

The State's long-term liabilities increased during the current fiscal year to $6.4 billion, an increase of $660.3 million. During fiscal 2008, the State issued $400 million in general obligation bonds for the purpose of financing the Hawaiian Home Lands Trust settlement and public improvement projects. The State also implemented Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for the fiscal year ended June 30, 2008 which resulted in a liability of $362.5 million.

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

The Government-Wide financial statements include not only the State itself (known as the "Primary Government"), but also the activities of seven legally separate Component Units: the Hawaii Community Development Authority, the Hawaii Health Systems Corporation, the Hawaii Housing Finance and Development Corporation, the Hawaii Hurricane Relief Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, 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 34 – 36 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

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

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

The basic Governmental Funds financial statements can be found on pages 37 – 39 of this report.

Proprietary Funds

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

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

The basic Proprietary Funds financial statements can be found on pages 41 – 45 of this report.

Fiduciary Funds

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

The basic Fiduciary Funds financial statements can be found on pages 46 – 47 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and fund financial statements. The notes to basic financial statements can be found on pages 54 – 118 of this report.

Other Supplementary Information

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

Government-Wide Financial Analysis

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

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $8.2 billion as of June 30, 2008, and decreased $762.4 million, or 8.5%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by $726.0 million, or 12.6%, and business-type activities had a decrease of $36.4 million, or 1.1%. The following table was derived from the Government-Wide statement of net assets (2007 amounts have not been adjusted for restatements).

Summary Schedule of Net Assets

June 30, 2008 and 2007
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	$ 3,263,330	$ 3,346,955	$ 2,070,238	$ 2,187,257	$ 5,333,568	$ 5,534,212
Capital assets, net	8,459,905	8,382,521	2,233,007	2,145,259	10,692,912	10,527,780
Total assets	11,723,235	11,729,476	4,303,245	4,332,516	16,026,480	16,061,992
Liabilities:						
Long-term liabilities	5,460,530	4,802,431	957,246	955,032	6,417,776	5,757,463
Other liabilities	1,244,104	1,182,453	144,186	139,235	1,388,290	1,321,688
Total liabilities	6,704,634	5,984,884	1,101,432	1,094,267	7,806,066	7,079,151
Net assets:						
Invested in capital assets, net of related debt	3,987,244	3,597,174	1,458,305	1,278,608	5,445,549	4,875,782
Restricted	909,877	569,006	730,061	655,055	1,639,938	1,224,061
Unrestricted	121,480	1,578,412	1,013,447	1,304,586	1,134,927	2,882,998
Total net assets	$ 5,018,601	$ 5,744,592	$ 3,201,813	$ 3,238,249	$ 8,220,414	$ 8,982,841

Analysis of Net Assets

By far the largest portion of the State's net assets ($5.4 billion or 66.2%) 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 ($1.6 billion or 20.0%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets ($1.1 billion or 13.8%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2008, the State is able to report positive balances in all three categories of net assets for both governmental activities and business-type activities.

Changes in Net Assets

The State's net assets decreased by $762.4 million, or 8.5%, during the fiscal year ended June 30, 2008. Approximately 60.9% of the State's total revenues came from taxes, while 26.3% 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, health, and general government.

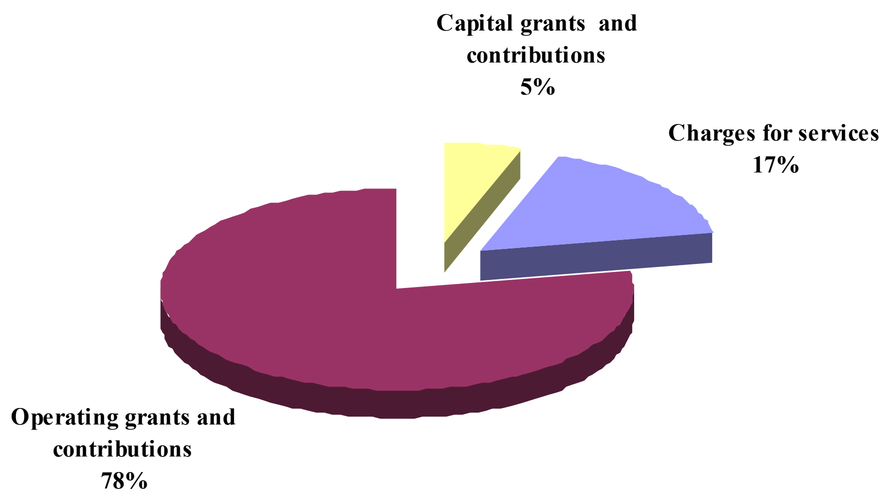
The following financial information was derived from the Government-Wide statement of activities and reflects how the State's net assets changed during the fiscal year (2007 amounts have not been adjusted for restatements).

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2008 and 2007
(Amounts in thousands)

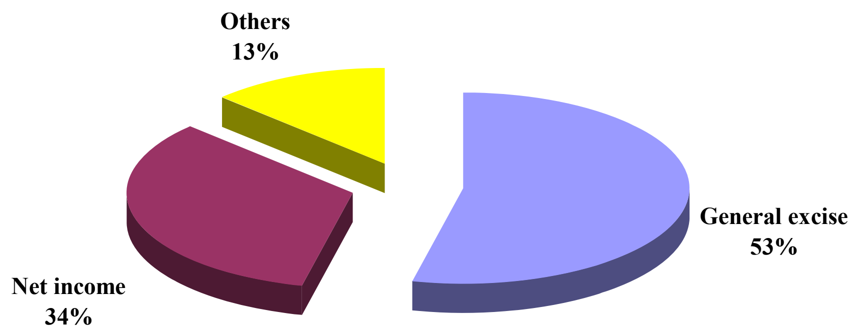
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	$ 406,758	$ 378,500	$ 449,319	$ 488,564	$ 856,077	$ 867,064
Operating grants and contributions	1,887,298	1,820,886	—	—	1,887,298	1,820,886
Capital grants and contributions	130,643	75,697	81,967	148,597	212,610	224,294
General revenues:						
Taxes	4,854,216	4,882,003	—	—	4,854,216	4,882,003
Interest and investment income	112,024	102,295	48,893	82,046	160,917	184,341
Other	106	—	—	—	106	—
Total revenues	7,391,045	7,259,381	580,179	719,207	7,971,224	7,978,588
Expenses:						
General government	548,439	541,889	—	—	548,439	541,889
Public safety	414,463	378,409	—	—	414,463	378,409
Highways	490,754	385,267	—	—	490,754	385,267
Conservation of natural resources	74,411	68,745	—	—	74,411	68,745
Health	895,413	833,669	—	—	895,413	833,669
Welfare	1,877,188	1,773,505	—	—	1,877,188	1,773,505
Lower education	2,385,056	2,288,641	—	—	2,385,056	2,288,641
Higher education	815,116	759,777	—	—	815,116	759,777
Other education	23,206	21,127	—	—	23,206	21,127
Culture and recreation	107,676	92,444	—	—	107,676	92,444
Urban redevelopment and housing	187,861	73,991	—	—	187,861	73,991
Economic development and assistance	157,421	148,164	—	—	157,421	148,164
Interest expense	140,032	118,708	—	—	140,032	118,708
Airports	—	—	354,554	329,942	354,554	329,942
Harbors	—	—	80,344	76,831	80,344	76,831
Unemployment compensation	—	—	159,098	112,411	159,098	112,411
Nonmajor proprietary fund	—	—	22,619	4,871	22,619	4,871
Total expenses	8,117,036	7,484,336	616,615	524,055	8,733,651	8,008,391
Change in net assets	(725,991)	(224,955)	(36,436)	195,152	(762,427)	(29,803)
Net assets – beginning of year – as previously reported	5,744,592	6,262,975	3,238,249	2,640,090	8,982,841	8,903,065
Adjustments		(293,428)		403,007		109,579
Net assets – beginning of year – as restated	5,744,592	5,969,547	3,238,249	3,043,097	8,982,841	9,012,644
Net assets – end of year	$ 5,018,601	$ 5,744,592	$ 3,201,813	$ 3,238,249	$ 8,220,414	$ 8,982,841

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

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2008



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2008



Analysis of Changes in Net Assets

The State's net assets decreased by $762.4 million during the current fiscal year. This decrease is explained in the governmental and business-type activities discussion below, and is primarily due to decrease in net assets of governmental activities of $726.0 million with decreases in net assets of Airports of $16.7 million and the Unemployment Compensation Fund of $44.6 million, offset by increases in net assets of Harbors and Nonmajor Proprietary Funds of $11.4 million and $13.6 million, respectively.

Governmental Activities

Governmental activities decreased the State's net assets by $726.0 million. The key elements of this decrease are a result of higher expenses for health, lower and higher education, and urban redevelopment and housing.

	Governmental Activities (Amounts in thousands)	
	2008	**2007**
General revenues:		
Taxes	$ 4,854,216	$ 4,882,003
Interest and investment income and other	112,130	102,295
Total general revenues	4,966,346	4,984,298
Expenses, net of program revenues:		
General government	219,930	300,506
Public safety	336,401	299,561
Highways	280,535	266,934
Conservation of natural resources	15,821	15,183
Health	624,714	597,832
Welfare	720,468	600,891
Lower education	2,126,429	2,009,821
Higher education	815,116	759,777
Other education	22,665	20,725
Culture and recreation	105,579	82,260
Urban redevelopment and housing	151,283	7,831
Economic development and assistance	133,364	129,224
Interest expense	140,032	118,708
Total governmental activities expenses, net of program revenues	5,692,337	5,209,253
Decrease in governmental activities net assets	$ (725,991)	$ (224,955)

Tax revenues decreased by $27.8 million, or .6%, from the previous fiscal year. The decrease was primarily due to a decrease in general excise taxes of $62.2 million, an increase in individual and corporate income taxes of $13.7 million, and an increase in transient accommodations taxes of $10.4 million collected by the Hawaii Tourism Authority.

Health net expenses increased by $26.9 million, or 4.5%, from the previous fiscal year due to an increase in expenditures for medical services programs, including public health services, and adult and adolescent behavioral health services.

Lower education net expenses increased by $116.6 million or 5.8% from the previous fiscal year due primarily to higher fixed costs, including debt service and fringe benefits, higher payroll costs, increase in repairs and maintenance expenses and the federal No Child Left Behind Act requirements.

Higher education net expenses increased by $55.3 million or 7.3% due mainly to a $134.4 million increase in compensation and benefits because of scheduled pay rate increases and addition of new faculty and administrative employees, which included an increase in expense related to post-retirement health and life insurance benefits due to the impact of GASB Statement No. 45, offset by decreases in supplies and material expenses and scholarships and fellowship expenses.

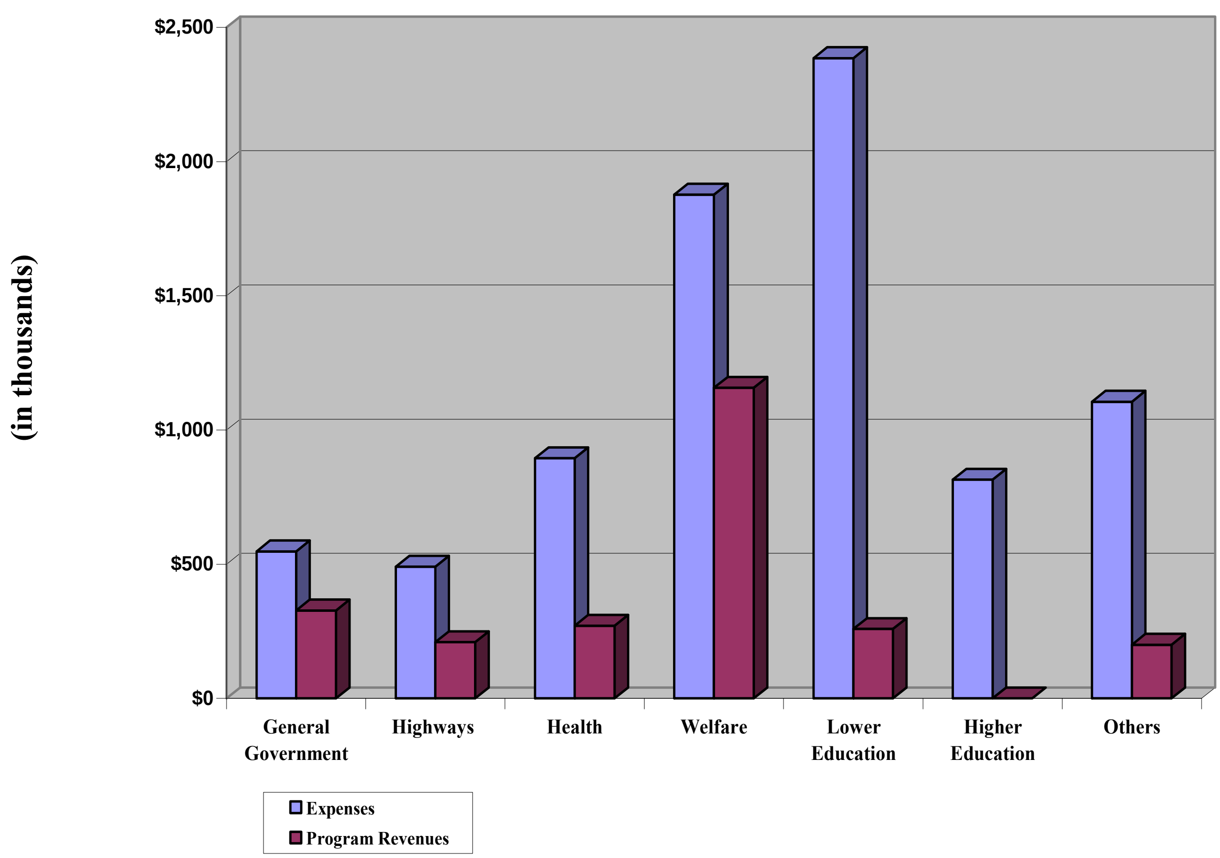
Welfare net expenses increased by $119.6 million, or 19.9%, from the previous fiscal year due to an increase in health care program costs administered by DHS, which is principally due to the transfer of the Home and Community Based Services program from the child welfare and adult community care services program to the health care programs of approximately $174.1 million, retroactive increases in the Medicaid fee schedule of $24.8 million and for the Disproportionate Share Hospital payments of $17.7 million.

Urban redevelopment and housing net expenses increased by $143.5 million, or over 18-fold from the previous fiscal year due to an increase in housing and rental expenses for Hawaii Housing Finance and Development Corporation of $28.8 million, increase of $8 million in Hawaiian Home Administration Account, and an increase of $25 million for the acquisition and financing of a portion of the land and improvements of Kukui Gardens.

Public safety net expenses increased by $36.8 million, or 12.3% from the previous fiscal year due to increases in collective bargaining costs, inmate health care costs and mainland prison expenses.

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

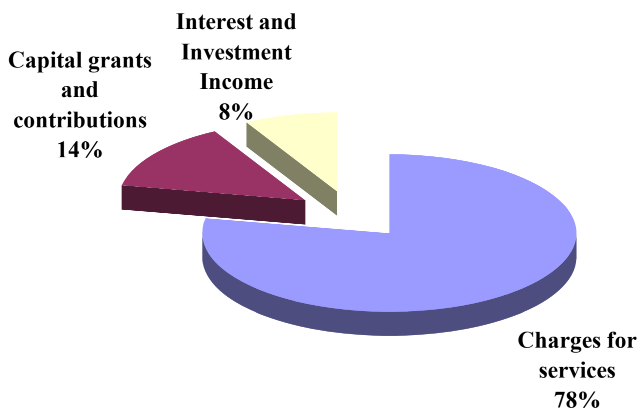
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2008



Business-Type Activities

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

Program Revenues by Source – Business-Type Activities
Fiscal Year Ended June 30, 2008



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2008

Business-type activities decreased the State's net assets by $36.4 million in fiscal 2008, compared to an increase of $195.2 million in fiscal 2007. Key elements of this decrease are as follows:

- Airport's net assets decreased $16.7 million compared to an increase of $34.1 million in the prior fiscal year. Capital contributions decreased $19.4 million and operating expenses increased $29.4 million, primarily attributed to higher personnel services and airport operating expenses. Interest income decreased $21.8 million primarily due to a decrease in fair value of investments in the State's Investment Pool of $20.0 million.

- Harbor's net assets increased $11.4 million in fiscal 2008 compared to an increase of $25.0 million in fiscal 2007. This change was primarily due to higher operating expenses of $8.8 million and a decrease in interest income of $9.1 million mainly attributed to a decrease in fair value of investments in the State's Investment Pool of $8.1 million.

- The Unemployment Compensation Fund's net assets decreased $44.6 million compared to an increase of $50.9 million in the prior fiscal year. The change was primarily due to a decrease in unemployment tax revenues of $50.6 million and an increase in unemployment benefits paid of $46.7 million.

- Nonmajor Proprietary Fund's net assets increased $13.6 million in fiscal 2008 compared to an increase of $85.2 million in fiscal 2007. This large decrease was attributed to decreases in capital contributions in the Water Pollution control Revolving Fund of $39.6 million and in the Drinking Water Treatment Revolving Fund of $11.8 million. The Employer Union Trust Fund incurring benefit claims expense in excess of contributions for active employees healthcare benefits of $40.8 million also contributed to the decrease.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2008 and 2007 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues									
	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Airports	$ 266,820	$ 256,843	$ 56,931	$ 71,363	$ 323,751	$ 328,206	$ 354,554	$ 329,942	$ (30,803)	$ (1,736)
Harbors	85,447	85,663	3,616	4,372	89,063	90,035	80,344	76,830	8,719	13,205
Unemployment compensation	87,486	138,070	—	—	87,486	138,070	159,098	112,411	(71,612)	25,659
Nonmajor proprietary funds	9,566	7,987	21,420	72,862	30,986	80,849	22,619	4,871	8,367	75,978
Total	$ 449,319	$ 488,563	$ 81,967	$ 148,597	$ 531,286	$ 637,160	$ 616,615	$ 524,054	$ (85,329)	$ 113,106

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.

At of the end of the current fiscal year, the State's Governmental Funds reported combined ending fund balances of $1.9 billion, a decrease of $407.7 million from the prior fiscal year (as restated). Unreserved fund balance, normally a positive amount, was a negative $810.6 million at fiscal year end. This deficit was the result of a negative unreserved fund balance of $1.8 billion in the Capital Projects Fund which was attributed to outstanding encumbrances exceeding the cash available in the fund. Encumbrances can be incurred as long as there is sufficient appropriation or authorization balances. The unreserved fund balance excluding the Capital Projects Fund was $977.7 million, which represents the amount available for spending at the State's discretion in the coming fiscal year. The remainder of the fund balance is reserved to indicate that it is not available for spending because it has been already been committed (1) to liquidate contacts and purchase orders of the prior period or are legally segregated for a specific future use ($2.2 billion), (2) for notes and loans receivable, advances, and investments ($69.9 million), (3) for federal aid highway projects encumbrances ($302.0 million), or (4) for a variety of other restricted purposes ($163.3 million).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was $567.5 million, a decrease of $313.8 million, or 35.6% from the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11.9% of total General Fund expenditures, a decrease of 7.9% from the prior fiscal year, while total fund balance represents 20.4% of the same amount, a decrease of 8.7% from the prior fiscal year.

The fund balance of the State's General Fund decreased by $321.9 million during the current fiscal year, which was due primarily to increases in expenditures in general government, welfare, lower education and higher education of $55.5 million, $42.0 million, $106.5 million and $37.0 million, respectively. The fund balance of the State's Capital Projects Fund decreased by $182.8 million during the current fiscal year. Because of adequate cash reserves, the State issued less general obligation bonds this fiscal year, which along with increased expenditures were the primary reasons for the decrease in fund balance. The fund balance of the Med-Quest Special Fund decreased $15.9 million. The fund balance of the State's other nonmajor Governmental Funds increased by $112.8 million during the current fiscal year. The increase was primarily due to an increase in intergovernmental revenues.

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 $16.7 million, Harbors had an increase in net assets of $11.4 million, the Unemployment Compensation Fund had a decrease in net assets of $44.6 million, and the Nonmajor Proprietary Funds had an increase in net assets of $13.6 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

General Fund Budgetary Highlights

The General Fund revenues were $24.0 million, or 0.5%, less than the final budget. The decrease was primarily attributed to lower corporate and individual net income taxes of $62.2 million, general excise taxes of $60.2 million, other taxes of $7.8 million, offset by higher investment and investment income, charges for current services, fines, forfeitures and penalties, and other revenues of $20.2 million, $17.6 million, $22.9, million and $50.3 million, respectively.

The General Fund expenditure budget increased by $251.1 million from the original to the final budget. Most of the increase is due to the original budget consisting only of the appropriations contained in the general appropriation acts of the executive and judicial branches. Amounts that were not part of this original budget include: $110.4 million in employees' salary adjustments, $37.3 million for the State Legislature, $15.4 million for various health programs, including adult mental health, and community hospitals disability, $9.6 million for housing programs, $7.6 million for upper education programs. $17.0 million for welfare programs, including Medicaid fee schedule increases, and $21.5 million for subsidies.

The difference between the final budget and actual expenditures on a budgetary basis was $138.6 million. The positive variance in general government is primarily attributed to $18.5 million of appropriations made to the State Legislature that can be carried over to the next fiscal year and $7.6 million appropriated for employees' salary adjustments that lapsed. The positive variance in general government was also due to a reduction in health benefit premiums of approximately $10.9 million because of lower actual premium rates for actives and retirees and a reduction of $15.2 million in various welfare programs and the postponement of the Medicaid fee schedule rate increase to fiscal 2009 resulted in the positive variance in welfare. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $41.0 million of unencumbered appropriations into the next fiscal year. By law, the Department of Education is allowed to carry over up to 5% of its unencumbered appropriations

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to $10.7 billion (net of accumulated depreciation of $7.5 billion), an increase of $165.1 million from fiscal 2007. The increase is primarily due to $194.2 million of additional projects under construction at the end of fiscal 2008. 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, 2008, included the following:

- $36.5 million for air conditioning system improvements at the Honolulu International Airport
- $58.3 million for inline baggage system improvements at the Honolulu International Airport
- $36.6 million for loading bridge modernization at airports, statewide
- $33.5 million for additional cargo facilities at Hilo International Airport
- $30.0 million for barge terminal improvements at Hilo harbor

- $66.8 million for the Ewa Makai Middle School in Oahu, Hawaii
- $39.7 million for the Wailuku II Elementary School in Maui
- $170.3 million of various capital improvement projects for public school facilities throughout the State

Additional information on the State's capital assets can be found in Note 3 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 $5.6 billion. Of this amount, $4.4 billion comprises debt backed by the full faith and credit of the State and $1.2 billion (i.e., revenue bonds), is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt

June 30, 2008 and 2007

(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2008	**June 30, 2007**	**June 30, 2008**	**June 30, 2007**	**June 30, 2008**	**June 30, 2007**
General obligation bonds	$ 4,408,572	$ 4,079,714	$ 38,357	$ 37	$ 4,446,929	$ 4,079,751
Revenue bonds	268,425	283,310	894,299	939,349	1,162,724	1,222,659
Total	$ 4,676,997	$ 4,363,024	$ 932,656	$ 939,386	$ 5,609,653	$ 5,302,410

The State's total long-term debt increased by $307.2 million, or 5.8%, during the current fiscal year. The key factors for this increase was the reporting of $276.9 million of general obligation bonds payable that was previously reported by the Hawaii Tourism Authority, a discretely presented component unit, and the issuance of $400 million of general obligation bonds for financing the Hawaiian Home Lands Trust settlement (see Note 10 to the basic financial statements) and public improvement projects.

As of June 30, 2008, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2008 was $400 million.

Additional information on the State's long-term debt can be found in notes 4, 5 and 6 to the basic financial statements.

Other Post-Employment Benefits (OPEB)

The State implemented provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for fiscal year ended June 30, 2008.

Actuarial valuation studies were completed as of July 1, 2007 for the Employer-Union Health Benefits Trust Fund (EUTF), Hawaii Voluntary Employee's Beneficiary Association Trust (VEBA), and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $8.8 billion. The State's combined annual required contribution for fiscal 2008 was $656.7 million and its OPEB contributions were $198.1 million, resulting in a net OPEB liability at the end of the fiscal year of $458.6 million. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term while it analyzes alternative strategies that could be implemented to manage the high cost of providing retiree health benefits.

Economic Factors and Next Year's Budget

Unemployment is at higher levels with the statewide seasonally adjusted unemployment rate being 6.5% for the month of February 2009. One year ago, the State's seasonally adjusted unemployment rate stood at 3.1%, while the seasonally adjusted national unemployment rate was 4.8%.

Cumulative tax collections for the first nine months of fiscal 2009 exceeded $3.2 billion, or $214.1 million less than the corresponding period last year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, decreased 6.9% in the same period.

The Council on Revenues in March 2009, estimated a decline of 5.0% in General Fund tax revenues in fiscal 2009 and an increase of .5% for fiscal 2010. Actual General Fund tax collections are down by 5.3% in the first nine months of fiscal 2009 over the corresponding 2008 period. Lower general excise and use tax collections were the primary factors underlying this weak performance. In January 2009, the Council on Revenues forecast the State's growth at 1.0% in 2009 total personal income. The projected decrease in revenues and increasing fixed costs led the Governor to impose a 4% restriction in August 2008 and an additional 2% restriction in January 2009 on all General Fund discretionary expenditures on all Executive Branch departments and agencies for fiscal year 2009. Consultant and personal services contracts and equipment purchases greater than $10,000 and the filling of vacant positions require the approval of the Governor. Other expenditure controls implemented in fiscal year 2008 continue to be in force.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Primary Government			
ASSETS	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
CASH AND CASH EQUIVALENTS	$ 915,294	$ 1,297,161	$ 2,212,455	$ 430,411
RECEIVABLES:				
Taxes	370,055	13,495	383,550	-
Accounts and accrued interest — net	9,426	25,536	34,962	163,052
Notes, loans, mortgages, and contributions — net	75,051	-	75,051	218,330
Federal government	96,686	10,838	107,524	4,076
Other — net	48,273	35,833	84,106	31,551
Total receivables	599,491	85,702	685,193	417,009
DUE FROM COMPONENT UNITS	320,061	-	320,061	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	368,978
INVESTMENTS	1,355,670	-	1,355,670	760,106
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	22,061
Materials and supplies	-	509	509	28,832
Total inventories	-	509	509	50,893
NET INVESTMENT IN FINANCING LEASE	-	-	-	15,032
RESTRICTED ASSETS	-	423,420	423,420	324,043
OTHER ASSETS:				
Prepaid expenses	6,038	9,351	15,389	16,634
Bond issue and deferred costs — net	66,775	5,958	72,733	1,987
Promissory note receivable	-	248,137	248,137	-
Other	1	-	1	28,407
Total other assets	72,814	263,446	336,260	47,028
CAPITAL ASSETS:				
Land and land improvements	2,037,485	585,015	2,622,500	433,191
Infrastructure	8,062,695	-	8,062,695	117,986
Construction in progress	840,989	291,795	1,132,784	278,918
Buildings, improvements, and equipment	3,414,693	2,955,001	6,369,694	3,012,684
Accumulated depreciation	(5,895,957)	(1,598,804)	(7,494,761)	(1,531,042)
Total capital assets — net	8,459,905	2,233,007	10,692,912	2,311,737
TOTAL	$11,723,235	$ 4,303,245	$16,026,480	$ 4,725,237

(Continued)

STATE OF HAWAII

STATEMENT OF NET ASSETS

JUNE 30, 2008

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
LIABILITIES:				
Vouchers and contracts payable	$ 395,838	$ 37,898	$ 433,736	$ 149,223
Other accrued liabilities	159,704	54,564	214,268	143,243
Prepaid airport use charge fund	-	464	464	-
Due to Component Units	368,978	-	368,978	-
Due to Primary Government	-	-	-	320,061
Due to federal government	-	-	-	20
Deferred revenue	-	3,997	3,997	-
Estimated future costs of land sold	-	-	-	32,759
Unamortized bond premium	220,965	-	220,965	-
Premiums payable	-	47,263	47,263	-
Other	98,619	-	98,619	33,959
Long-term liabilities:				
Due within one year:				
Payable from restricted assets:				
Revenue bonds payable — net	-	33,158	33,158	-
General obligation bonds payable	342,395	9	342,404	-
Notes, mortgages, and installment contracts payable	-	-	-	16,031
Accrued vacation and retirement benefits payable	64,459	3,239	67,698	39,036
Revenue bonds payable — net	15,495	-	15,495	20,153
Reserve for losses and loss adjustment costs	43,214	1,216	44,430	22,613
Capital lease obligations	3,795	-	3,795	8,435
Deferred commitment fees	-	-	-	339
Due in more than one year:				
General obligation bonds payable	4,066,177	38,348	4,104,525	-
Notes, mortgages, and installment contracts payable	-	-	-	35,072
Accrued vacation and retirement benefits payable	131,162	7,052	138,214	60,019
Revenue bonds payable — net	252,930	861,141	1,114,071	643,003
Reserve for losses and loss adjustment costs	112,089	3,550	115,639	8,265
Capital lease obligations	71,685	-	71,685	45,357
Premiums on bonds payable	-	-	-	1,864
Other postemployment benefit liability	353,936	8,580	362,516	95,669
Other	3,193	953	4,146	59,730
TOTAL LIABILITIES	6,704,634	1,101,432	7,806,066	1,734,851
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	3,987,244	1,458,305	5,445,549	1,623,933
RESTRICTED FOR:				
Capital maintenance projects	188,826	-	188,826	-
Health and welfare	124,147	-	124,147	-
Natural resources	126,438	-	126,438	-
Hawaiian programs	207,324	-	207,324	-
Budget stabilization	73,954	-	73,954	-
Other purposes	167,186	-	167,186	-
Bond requirements and other	22,002	730,061	752,063	977,522
UNRESTRICTED	121,480	1,013,447	1,134,927	388,931
TOTAL NET ASSETS	$5,018,601	$3,201,813	$8,220,414	$2,990,386

See accompanying notes to basic financial statements.

(Concluded)

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
FUNCTIONS/PROGRAMS	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	$ 548,439	$203,336	$ 125,173	$ -	$ (219,930)	$ -	$ (219,930)	
Public safety	414,463	28,124	49,938	-	(336,401)	-	(336,401)	
Highways	490,754	5,958	73,618	130,643	(280,535)	-	(280,535)	
Conservation of natural resources	74,411	27,006	31,584	-	(15,821)	-	(15,821)	
Health	895,413	102,032	168,667	-	(624,714)	-	(624,714)	
Welfare	1,877,188	979	1,155,741	-	(720,468)	-	(720,468)	
Lower education	2,385,056	31,032	227,595	-	(2,126,429)	-	(2,126,429)	
Higher education	815,116	-	-	-	(815,116)	-	(815,116)	
Other education	23,206	-	541	-	(22,665)	-	(22,665)	
Culture and recreation	107,676	-	2,097	-	(105,579)	-	(105,579)	
Urban redevelopment and housing	187,861	684	35,894	-	(151,283)	-	(151,283)	
Economic development and assistance	157,421	7,607	16,450	-	(133,364)	-	(133,364)	
Interest expense	140,032	-	-	-	(140,032)	-	(140,032)	
Total governmental activities	8,117,036	406,758	1,887,298	130,643	(5,692,337)	-	(5,692,337)	
Business-Type Activities:								
Airports	354,554	266,820	-	56,931	-	(30,803)	(30,803)	
Harbors	80,344	85,447	-	3,616	-	8,719	8,719	
Unemployment compensation	159,098	87,486	-	-	-	(71,612)	(71,612)	
Nonmajor proprietary funds	22,619	9,566	-	21,420	-	8,367	8,367	
Total business-type activities	616,615	449,319	-	81,967	-	(85,329)	(85,329)	
TOTAL PRIMARY GOVERNMENT	8,733,651	856,077	1,887,298	212,610	(5,692,337)	(85,329)	(5,777,666)	
COMPONENT UNITS:								
University of Hawaii	1,350,459	276,886	379,364	-				(694,209)
Hawaii Housing Finance and Development Corporation	48,808	50,828	61,830	-				63,850
Hawaii Public Housing Authority	125,428	21,940	61,777	9,521				(32,190)
Hawaii Health Systems Corporation	523,559	392,902	1,356	11,393				(117,908)
Hawaii Tourism Authority	121,007	14,036	-	-				(106,971)
Hawaii Community Development Authority	16,424	8,618	-	-				(7,806)
Hawaii Hurricane Relief Fund	220	-	-	-				(220)
TOTAL COMPONENT UNITS	2,185,905	765,210	504,327	20,914				(895,454)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,597,121	-	2,597,121	-
Net income tax — corporations and individuals					1,634,117	-	1,634,117	-
Public service companies tax					127,481	-	127,481	-
Transient accommodations tax					17,756	-	17,756	-
Tobacco and liquor taxes					134,886	-	134,886	-
Liquid fuel tax					90,123	-	90,123	-
Tax on premiums of insurance companies					96,332	-	96,332	-
Vehicle weight and registration tax					60,842	-	60,842	-
Rental motor/tour vehicle surcharge tax					49,196	-	49,196	-
Franchise tax					20,213	-	20,213	-
Other tax					26,149	-	26,149	-
Interest and investment income					112,024	48,893	160,917	25,151
Payments from the State — net					-	-	-	978,319
Other					106	-	106	54,994
Total general revenues					4,966,346	48,893	5,015,239	1,058,464
CHANGE IN ACCOUNTING PRINCIPLE (Note 1)					-	-	-	30,815
CHANGE IN NET ASSETS					(725,991)	(36,436)	(762,427)	193,825
NET ASSETS — Beginning of year — as previously reported					5,744,592	3,238,249	8,982,841	2,873,536
ADJUSTMENTS (Note 15)					-	-	-	(76,975)
NET ASSETS — Beginning of year — as restated					5,744,592	3,238,249	8,982,841	2,796,561
NET ASSETS — End of year					$ 5,018,601	$3,201,813	$ 8,220,414	$2,990,386

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 318,708	$ 30,361	$ 2,625	$ 563,600	$ 915,294
RECEIVABLES:					
Taxes	370,055	-	-	-	370,055
Accrued interest	5,259	-	-	4,167	9,426
Notes and loans — net	3,834	-	-	71,217	75,051
Federal government	-	-	96,686	-	96,686
Other	68	-	-	20,652	20,720
DUE FROM OTHER FUNDS	90,886	-	-	41,432	132,318
DUE FROM COMPONENT UNITS	28,958	-	-	-	28,958
INVESTMENTS	514,026	242,946	-	598,698	1,355,670
OTHER ASSETS	-	-	-	1	1
TOTAL	$1,331,794	$ 273,307	$ 99,311	$1,299,767	$ 3,004,179
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 129,527	$ 44,009	$ 97,780	$ 124,522	$ 395,838
Other accrued liabilities	150,293	98	-	9,313	159,704
Due to other funds	42	128,928	-	3,348	132,318
Due to Component Units	54,243	294,325	-	-	348,568
Deferred revenue	23,331	-	-	-	23,331
Payable from restricted assets — matured bonds and interest payable	-	-	-	3,193	3,193
Total liabilities	357,436	467,360	97,780	140,376	1,062,952
FUND BALANCES:					
Reserved for:					
Continuing appropriations	403,050	1,292,319	17,482	503,832	2,216,683
Receivables and advances	3,834	-	-	66,034	69,868
Federal aid highway projects encumbrances	-	301,985	-	-	301,985
Bond redemption and other	-	-	-	163,309	163,309
Unreserved for major funds:					
Designated for future expenditures	103,557	-	-	-	103,557
Undesignated	463,917	(1,788,357)	-	-	(1,324,440)
Unreserved for nonmajor Special Revenue Funds:					
Designated for future expenditures	-	-	-	124,154	124,154
Undesignated	-	-	(15,951)	302,062	286,111
Total fund balances	974,358	(194,053)	1,531	1,159,391	1,941,227
TOTAL	$1,331,794	$ 273,307	$ 99,311	$1,299,767	$ 3,004,179

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, 2008
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 1,941,227
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land and land improvements	2,037,485
Infrastructure	8,062,695
Construction in progress	840,989
Buildings, improvements, and equipment	3,414,693
Accumulated depreciation	(5,895,957)
	8,459,905
Accrued interest and other payables are not recognized in Governmental Funds	(319,584)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in Governmental Funds, such as accrued interest and settlement receivables	123,697
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds payable	(4,408,572)
Accrued vacation payable	(195,621)
Revenue bonds payable	(268,425)
Reserve for losses and loss adjustment costs	(155,303)
Other postemployment benefit liability	(353,936)
Long term transactions with component units	270,693
Capital lease obligations	(75,480)
	(5,186,644)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 5,018,601

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$2,597,121	$ -	$ -	$ -	$2,597,121
Net income tax — corporations and individuals	1,637,265	-	-	-	1,637,265
Public service companies tax	127,481	-	-	-	127,481
Transient accommodations tax	15,756	-	-	2,000	17,756
Tobacco and liquor taxes	129,063	-	-	5,823	134,886
Liquid fuel tax	-	-	-	90,123	90,123
Tax on premiums of insurance companies	94,587	-	-	1,745	96,332
Vehicle weight and registration tax	-	-	-	60,842	60,842
Rental motor/tour vehicle surcharge tax	-	-	-	49,196	49,196
Franchise tax	18,213	-	-	2,000	20,213
Other	6,320	-	-	19,829	26,149
Total taxes	4,625,806	-	-	231,558	4,857,364
Interest and investment income	27,639	-	212	87,396	115,247
Charges for current services	112,644	-	184	228,543	341,371
Intergovernmental	4,634	-	707,560	1,095,182	1,807,376
Rentals	462	-	-	19,690	20,152
Fines, forfeitures, and penalties	23,508	-	-	9,110	32,618
Licenses and fees	1,510	-	-	30,221	31,731
Revenues from private sources	2,317	-	-	57,191	59,508
Other	47,375	-	14,385	69,531	131,291
Total revenues	4,845,895	-	722,341	1,828,422	7,396,658
EXPENDITURES:					
Current:					
General government	407,147	83,000	-	47,394	537,541
Public safety	280,962	14,692	-	115,498	411,152
Highways	-	201,353	-	205,442	406,795
Conservation of natural resources	46,489	3,369	-	53,738	103,596
Health	573,929	14,537	-	275,448	863,914
Welfare	744,547	27,777	684,723	400,426	1,857,473
Lower education	1,882,742	134,726	-	184,433	2,201,901
Higher education	697,333	117,783	-	-	815,116
Other education	6,293	-	-	16,913	23,206
Culture and recreation	53,805	15,908	-	40,691	110,404
Urban redevelopment and housing	52,035	25,395	-	178,353	255,783
Economic development and assistance	39,752	24,814	-	84,509	149,075
Other	528	-	-	5,352	5,880
Debt service	-	-	-	478,735	478,735
Total expenditures	4,785,562	663,354	684,723	2,086,932	8,220,571
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	60,333	(663,354)	37,618	(258,510)	(823,913)
OTHER FINANCING SOURCES (USES):					
Issuance of general obligation and refunding general obligation bonds — par	-	397,302	-	29,010	426,312
Issuance of general obligation and refunding general obligation bonds — premium	18,875	-	-	500	19,375
Payment to refunded bond escrow agent	-	-	-	(29,510)	(29,510)
Transfers in	37,470	136,312	-	629,674	803,456
Transfers out	(438,530)	(53,092)	(53,497)	(258,337)	(803,456)
Total other financing sources (uses)	(382,185)	480,522	(53,497)	371,337	416,177
NET CHANGE IN FUND BALANCES	(321,852)	(182,832)	(15,879)	112,827	(407,736)
FUND BALANCES — Beginning of year — as previously reported	1,296,210	24,410	17,410	1,046,564	2,384,594
ADJUSTMENTS (Note 15)	-	(35,631)	-	-	(35,631)
FUND BALANCES — Beginning of year — as restated	1,296,210	(11,221)	17,410	1,046,564	2,348,963
FUND BALANCES — End of year	$ 974,358	$(194,053)	$ 1,531	$1,159,391	$1,941,227

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, 2008 (Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ (407,736)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in Governmental Funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay — net of disposals	430,586
Depreciation expense	(353,202)
Excess of capital outlay over depreciation expense	77,384
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.	(456,524)
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	395,456
Capital lease payments	3,610
Total long-term debt repayment	399,066
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	5,369
Bond issue and deferred costs reflected as other financing uses in Governmental Funds and reported in the statement of net assets — net of amortization.	(4,056)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds:	
Change in postemployment liability	(353,936)
Change in accrued vacation payable	(11,754)
Change in HHFDC long term liability	5,990
Change in reserve for losses and loss adjustment costs	20,206
	(339,494)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (725,991)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 451,011	$ 118,875	$ 527,459	$ 199,816	$ 1,297,161
Restricted assets — cash and short-term investments	186,732	17,746	-	-	204,478
Receivables:					
Taxes	-	-	13,495	-	13,495
Accounts and accrued interest (net of allowance for doubtful accounts of $7,843)	15,516	7,785	-	2,235	25,536
Promissory note receivable (net of allowance for doubtful accounts of $10,299)	325	43	-	21,630	21,998
Federal government	10,259	579	-	-	10,838
Restricted assets — passenger facility charges	1,523	-	-	-	1,523
Other	1,915	568	-	1,469	3,952
Premiums	-	-	-	31,881	31,881
Restricted assets — investments — repurchase agreements and certificates of deposit	75,252	-	-	-	75,252
Materials and supplies inventory	268	241	-	-	509
Prepaid expenses and other assets	-	24	-	9,327	9,351
Total current assets	742,801	145,861	540,954	266,358	1,695,974
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	334,921	250,094	-	-	585,015
Construction in progress	219,131	70,670	-	1,994	291,795
Buildings and improvements	2,208,347	521,211	-	-	2,729,558
Equipment	174,420	47,509	-	3,514	225,443
	2,936,819	889,484	-	5,508	3,831,811
Less accumulated depreciation	(1,401,205)	(194,580)	-	(3,019)	(1,598,804)
Net capital assets	1,535,614	694,904	-	2,489	2,233,007
Bond issue costs — net	2,925	3,033	-	-	5,958
Promissory note receivable	123	-	-	226,016	226,139
Restricted assets — net direct financing leases	36,095	-	-	-	36,095
Restricted assets — other, cash and investments	-	106,072	-	-	106,072
Total noncurrent assets	1,574,757	804,009	-	228,505	2,607,271
TOTAL	$ 2,317,558	$ 949,870	$ 540,954	$ 494,863	$ 4,303,245

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 28,488	$ 6,253	$ 2,583	$ 574	$ 37,898
Payable from restricted assets — contracts payable, accrued interest, and other	33,326	16,020	-	-	49,346
Other accrued liabilities	5,023	-	-	195	5,218
Prepaid airport use charge fund	464	-	-	-	464
Deferred revenue	3,997	-	-	-	3,997
General obligation bonds payable, current portion	9	-	-	-	9
Reserve for losses and loss adjustment costs	1,120	96	-	-	1,216
Accrued vacation, current portion	2,639	575	-	25	3,239
Payable from restricted assets — revenue bonds payable	22,240	10,918	-	-	33,158
Premiums payable	-	-	-	47,263	47,263
Total current liabilities	97,306	33,862	2,583	48,057	181,808
NONCURRENT LIABILITIES:					
General obligation bonds payable	19	38,329	-	-	38,348
Accrued vacation	5,120	1,663	-	269	7,052
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	621,607	239,534	-	-	861,141
Reserve for losses and loss adjustment costs	3,180	370	-	-	3,550
Other postemployment benefit liability	6,940	1,451	-	189	8,580
Other	953	-	-	-	953
Total long-term liabilities	637,819	281,347	-	458	919,624
TOTAL LIABILITIES	735,125	315,209	2,583	48,515	1,101,432
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	955,901	499,915	-	2,489	1,458,305
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	230,217	66,359	-	433,485	730,061
UNRESTRICTED	396,315	68,387	538,371	10,374	1,013,447
TOTAL NET ASSETS	$ 1,582,433	$ 634,661	$ 538,371	$ 446,348	$ 3,201,813

See accompanying notes to basic financial statements.

(Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 121,917	$ -	$ -	$ -	$ 121,917
Unemployment compensation tax	-	-	87,486	-	87,486
Aviation fuel tax	4,452	-	-	-	4,452
Airport use charges	36,953	-	-	-	36,953
Rentals	75,740	25,263	-	-	101,003
Services and others	617	57,782	-	-	58,399
Administrative fees	-	-	-	6,039	6,039
Other	4,698	2,402	-	3,527	10,627
Total operating revenues	244,377	85,447	87,486	9,566	426,876
OPERATING EXPENSES:					
Personnel services	123,580	15,188	-	1,022	139,790
Depreciation	80,571	17,227	-	142	97,940
Repairs and maintenance	52,815	11,470	-	209	64,494
Airports operations	49,170	-	-	-	49,170
Harbors operations	-	15,648	-	-	15,648
Fireboat operations	-	1,941	-	-	1,941
General administration	15,738	8,309	-	4,579	28,626
Unemployment compensation	-	-	159,098	-	159,098
Other	384	-	-	35	419
Total operating expenses	322,258	69,783	159,098	5,987	557,126
Operating income (loss)	(77,881)	15,664	(71,612)	3,579	(130,250)
NONOPERATING REVENUES (EXPENSES):					
Interest income	14,061	2,680	26,964	5,188	48,893
Interest expense	(31,863)	(13,518)	-	-	(45,381)
Federal grants	24,958	-	-	-	24,958
Loss on disposal of capital assets	(10)	(46)	-	-	(56)
Passenger facility charges	22,443	-	-	-	22,443
Other	(423)	3,003	-	(16,632)	(14,052)
Total nonoperating revenues (expenses)	29,166	(7,881)	26,964	(11,444)	36,805
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(48,715)	7,783	(44,648)	(7,865)	(93,445)
CAPITAL CONTRIBUTIONS	31,973	3,616	-	21,420	57,009
CHANGE IN NET ASSETS	(16,742)	11,399	(44,648)	13,555	(36,436)
NET ASSETS — Beginning of year	1,599,175	623,262	583,019	432,793	3,238,249
NET ASSETS — End of year	$ 1,582,433	$ 634,661	$ 538,371	$ 446,348	$ 3,201,813

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 245,764	$ 86,521	$ -	$ -	$ 332,285
Cash received from taxes	-	-	106,194	-	106,194
Cash received from employees	-	-	-	289,019	289,019
Cash paid to suppliers	(167,865)	(39,781)	-	(2,692)	(210,338)
Cash paid to employees	(64,386)	(13,647)	-	(2,638)	(80,671)
Cash paid for unemployment compensation	-	-	(158,012)	-	(158,012)
Cash paid for premiums	-	-	-	(324,806)	(324,806)
Reserves returned by insurance carriers	-	-	-	141	141
Interest income from notes receivable	-	-	-	3,614	3,614
Administrative loan fees	-	-	-	2,872	2,872
Principal repayments on notes receivable	-	-	-	17,753	17,753
Disbursement of note receivable proceeds	-	-	-	(35,453)	(35,453)
Net cash provided by (used in) operating activities	13,513	33,093	(51,818)	(52,190)	(57,402)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Net advances to other funds	-	-	-	393	393
State capital contributions	-	-	-	2,666	2,666
Proceeds from federal operating grants	20,515	-	-	18,831	39,346
Net cash provided by noncapital financing activities	20,515	-	-	21,890	42,405
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Cash received from bond issuance	-	52,960	-	-	52,960
Proceeds from debt payable to Department of Budget and Finance	-	2,700	-	-	2,700
Acquisition and construction of capital assets	(98,992)	(50,538)	-	(2,191)	(151,721)
Proceeds from sale of capital assets	17	3,003	-	-	3,020
Repayment of general obligation and revenue bonds principal	(32,259)	(65,158)	-	-	(97,417)
Interest paid on bonds	(36,973)	(15,489)	-	-	(52,462)
Proceeds from passenger facility charges program	24,220	-	-	-	24,220
Payments from passenger facility charges program	(19,394)	-	-	-	(19,394)
Proceeds from federal, state, and capital grants	24,963	185	-	-	25,148
Net cash used in capital and related financing activities	(138,418)	(72,337)	-	(2,191)	(212,946)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	107,742	-	-	-	107,742
Proceeds from sales and maturities of investments	(107,742)	-	-	-	(107,742)
Interest from investments	14,159	5,082	26,964	6,139	52,344
Net cash provided by investing activities	14,159	5,082	26,964	6,139	52,344
NET DECREASE IN CASH AND CASH EQUIVALENTS	(90,231)	(34,162)	(24,854)	(26,352)	(175,599)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year (as previously reported)	727,974	276,855	552,313	228,984	1,786,126
Adjustments (Note 15)	-	-	-	(2,816)	(2,816)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year (as restated)	727,974	276,855	552,313	226,168	1,783,310
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ 637,743	$ 242,693	$ 527,459	$ 199,816	$ 1,607,711

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ (77,881)	$ 15,664	$ (71,612)	$ 3,579	$ (130,250)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	736	-	-	736
Depreciation	80,571	17,227	-	141	97,939
Bad debt expense	3,971	-	-	-	3,971
Reserves provided by operating activites	-	-	-	4,250	4,250
Premium reserves held by insurance companies	-	-	-	(24,000)	(24,000)
Decrease (increase) in assets:					
Receivables	(2,224)	257	18,707	(18,230)	(1,490)
Inventory of materials and supplies	(23)	(5)	-	-	(28)
Prepaid expenses	-	-	-	(2)	(2)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	3,090	(2,420)	1,087	(49)	1,708
Other accrued liabilities	6,693	1,634	-	(17,966)	(9,639)
Prepaid airport use charge fund	(1,070)	-	-	-	(1,070)
Deferred revenue	386	-	-	-	386
Accrued interest on loans receivable	-	-	-	87	87
Net cash provided by (used in) operating activities	$ 13,513	$ 33,093	$ (51,818)	$ (52,190)	$ (57,402)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	789	278	-	-	1,067
Principal payments relating to special facility revenue bonds	1,040	-	-	-	1,040
Interest payments relating to special facility revenue bonds	2,343	-	-	-	2,343

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Employer - Union Trust Fund	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 73,296	$ 126,407
Receivables:		
Taxes	-	10,238
Accrued interest	79	-
Premium - trust	43,077	-
Medicare reimbursements - trust	16	-
Total receivables	43,172	10,238
Due from individuals, businesses, and counties	-	36,305
Investments	-	74,177
Deposits and other assets - trust	10,104	-
Capital assets - trust	1,441	-
Total assets	128,013	247,127
LIABILITIES AND NET ASSETS:		
Vouchers payable	96	73,906
Due to individuals, businesses, and counties	-	173,221
Retrospective premium payable - trust	983	-
Premium payable - trust	14,404	-
Compensated absences, accrued wages, and employee benefits payable - trust	175	-
Total liabilities	15,658	247,127
Net assets — held in trust	$ 112,355	$ -

See accompanying notes to basic financial statements.

STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Employer - Union Trust Fund
ADDITIONS:	
Interest and investment income	$ 1,861
Contributions - employer and plan member	296,659
Increase in premium reserves	37,295
Total additions	335,815
DEDUCTIONS:	
Benefits	248,049
Administrative expenses	1,610
Total deductions	249,659
CHANGE IN NET ASSETS	86,156
NET ASSETS — held in trust — Beginning of year	26,199
NET ASSETS — held in trust — End of year	$ 112,355

See accompanying notes to basic financial statements.

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
ASSETS				
CASH AND CASH EQUIVALENTS	$ 105,545	$ 202,295	$ 21,570	$ 33,838
RECEIVABLES:				
Accounts and accrued interest (net of allowance for doubtful accounts of $138,712)	93,459	8,666	1,335	57,479
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	47,354	170,550	426	-
Federal government	-	-	4,076	-
Other	-	5,628	1,126	12,778
DUE FROM PRIMARY GOVERNMENT	274,143	21,614	45,186	25,877
INVESTMENTS	540,616	6,548	-	-
INVENTORIES:				
Developments in progress and dwelling units	-	22,061	-	-
Materials and supplies	13,416	-	558	14,858
NET INVESTMENT IN FINANCING LEASE	-	15,032	-	-
PREPAID EXPENSES AND OTHER ASSETS	9,645	205	1,472	4,874
	1,084,178	452,599	75,749	149,704
RESTRICTED ASSETS:				
Cash and cash equivalents	138	308,006	-	2,490
Investments	-	6	-	-
Deposits, funded reserves, and other	-	590	7,944	-
Total restricted assets	138	308,602	7,944	2,490
CAPITAL ASSETS:				
Land and land improvements	92,189	43,454	25,346	7,140
Infrastructure	74,888	-	-	-
Construction in progress	211,866	-	35,398	28,446
Buildings, improvements, and equipment	1,619,014	147,475	547,186	469,637
Less accumulated depreciation	(809,322)	(83,131)	(298,291)	(221,080)
Total capital assets — net	1,188,635	107,798	309,639	284,143
OTHER ASSETS	28,407	1,987	-	-
TOTAL	$ 2,301,358	$ 870,986	$ 393,332	$ 436,337

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 11,853	$ 48,399	$ 6,911	$ 430,411
-	435	1,678	163,052
-	-	-	218,330
-	-	-	4,076
12,019	-	-	31,551
-	2,158	-	368,978
27,347	-	185,595	760,106
-	-	-	22,061
-	-	-	28,832
-	-	-	15,032
-	438	-	16,634
51,219	51,430	194,184	2,059,063
4,869	-	-	315,503
-	-	-	6
-	-	-	8,534
4,869	-	-	324,043
131,497	133,565	-	433,191
-	43,098	-	117,986
-	3,208	-	278,918
211,581	17,791	-	3,012,684
(82,716)	(36,502)	-	(1,531,042)
260,362	161,160	-	2,311,737
-	-	-	30,394
$ 316,450	$ 212,590	$ 194,184	$ 4,725,237

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 52,786	$ 2,478	$ 9,016	$ 79,792
Other accrued liabilities	126,984	15,670	391	-
Due to Primary Government	8,916	-	-	13,300
Due to federal government	-	-	20	-
Estimated future costs of land sold	-	32,759	-	-
Notes, mortgages, and installment contracts payable	-	50	-	15,981
Accrued vacation and retirement benefits payable	23,766	145	522	14,409
Revenue bonds payable	4,415	15,738	-	-
Reserve for losses and loss adjustment costs	4,314	-	-	18,299
Capital lease obligations	460	-	-	7,975
Deferred commitment fees	-	339	-	-
Other liabilities	-	30,760	1,693	563
Total current liabilities	221,641	97,939	11,642	150,319
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	316	5,798	507	28,451
Accrued vacation and retirement benefits payable	37,832	448	1,577	19,606
Revenue bonds payable	258,630	384,373	-	-
Reserve for losses and loss adjustment costs	8,265	-	-	-
Premium on bonds payable	1,864	-	-	-
Capital lease obligations	13,360	-	-	31,997
Other postemployment benefit liability	62,851	423	1,765	30,250
Other liabilities	7,356	3,658	1,577	21,484
Total noncurrent liabilities	390,474	394,700	5,426	131,788
TOTAL	612,115	492,639	17,068	282,107
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	967,717	4,179	309,132	198,283
RESTRICTED	569,678	308,596	7,917	2,116
UNRESTRICTED (DEFICIT)	151,848	65,572	59,215	(46,169)
TOTAL	1,689,243	378,347	376,264	154,230
TOTAL LIABILITIES AND NET ASSETS	$ 2,301,358	$ 870,986	$ 393,332	$ 436,337

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 4,723	$ 428	$ -	$ 149,223
94	104	-	143,243
288,187	-	9,658	320,061
-	-	-	20
-	-	-	32,759
-	-	-	16,031
121	73	-	39,036
-	-	-	20,153
-	-	-	22,613
-	-	-	8,435
-	-	-	339
656	287	-	33,959
293,781	892	9,658	785,872
-	-	-	35,072
306	250	-	60,019
-	-	-	643,003
-	-	-	8,265
-	-	-	1,864
-	-	-	45,357
214	166	-	95,669
-	25,655	-	59,730
520	26,071	-	948,979
294,301	26,963	9,658	1,734,851
(16,538)	161,160	-	1,623,933
38,687	50,528	-	977,522
-	(26,061)	184,526	388,931
22,149	185,627	184,526	2,990,386
$ 316,450	$ 212,590	$ 194,184	$ 4,725,237

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,350,459	$ 48,808	$ 125,428	$ 523,559
PROGRAM REVENUES:				
Charges for services	276,886	50,828	21,940	392,902
Operating grants and contributions	379,364	61,830	61,777	1,356
Capital grants and contributions	-	-	9,521	11,393
Total program revenues	656,250	112,658	93,238	405,651
Net program revenues (expenses)	(694,209)	63,850	(32,190)	(117,908)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	10,662	-	-	1,031
Payments from (to) the State	740,638	100	58,682	79,895
Other	53,881	-	-	1,113
Net general revenues	805,181	100	58,682	82,039
Change in accounting principle (Note 1)	-	-	-	30,815
Change in net assets	110,972	63,950	26,492	(5,054)
NET ASSETS — Beginning of year — as previously reported	1,578,271	314,397	348,404	159,284
ADJUSTMENTS (Note 15)	-	-	1,368	-
NET ASSETS — Beginning of year — as restated	1,578,271	314,397	349,772	159,284
NET ASSETS — End of year	$ 1,689,243	$ 378,347	$ 376,264	$ 154,230

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 121,007	$ 16,424	$ 220	$ 2,185,905
14,036	8,618	-	765,210
-	-	-	504,327
-	-	-	20,914
14,036	8,618	-	1,290,451
(106,971)	(7,806)	(220)	(895,454)
1,846	795	10,817	25,151
110,907	(4,155)	(7,748)	978,319
-	-	-	54,994
112,753	(3,360)	3,069	1,058,464
-	-	-	30,815
5,782	(11,166)	2,849	193,825
16,367	275,136	181,677	2,873,536
-	(78,343)	-	(76,975)
16,367	196,793	181,677	2,796,561
$ 22,149	$ 185,627	$ 184,526	$ 2,990,386

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 State's significant accounting policies are described below.

Reporting Entity — The accompanying basic financial statements present the financial activity of the State ("Primary Government") and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State's reporting entity to be misleading or incomplete.

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

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

Judicial

Legislative

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

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

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

Hawaii Housing Finance and Development Corporation — Effective July 1, 2006, the Hawaii Housing Finance and Development Corporation (HHFDC) was established as a corporate body to be placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. Effective July 1, 2006, the HHFDC is the second agency created with the splitting of the Housing and Community Development Corporation of Hawaii (HCDCH) by Act 196, Session Laws of Hawaii (SLH) of 2005, as amended by Act 180, SLH of 2006. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six shall be public members appointed by the Governor:
    - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
        - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai.
        - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.

- The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
  - Two members to be appointed for four years;
  - Two members to be appointed for three years; and
  - Two members to be appointed for two years.
- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

Hawaii Public Housing Authority — The Hawaii Public Housing Authority (HPHA) was established as a corporate body to be placed within the Department of Human Services for administrative purposes. Effective July 1, 2006, Act 196, SLH of 2005, as amended by Act 180, SLH of 2006, split the HCDCH into two agencies, one of which was the HPHA. The HPHA is charged with managing federal and state public housing programs, including Section 8 and senior housing.

HRS Chapter 356D states that the HPHA shall be a public body and a body corporate and politic and be headed by a board of directors comprised of 11 members. The 11 members consist of the following:

- Nine public members appointed by the Governor (four appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai, and five appointed at large);
- The Director of Human Services, as an Ex Officio voting member; and
- The Representative of the Governor's Office, as an Ex Officio voting member.

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 serviced by small rural facilities, by freeing the facilities from unwarranted bureaucratic oversight.

HRS Chapter 323F 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. In June 2007, the State Legislature enacted Act 290, SLH of 2007. The Act, which became effective on July 1, 2007, required the establishment of a seven to 15-member regional system board of directors for each of the five regions of the HHSC. Each regional board of directors was given custodial control and responsibility for management of the facilities and other assets in their respective regions. Act 290 also restructured the 13-member HHSC board of directors to 15 members, consisting of the following:

- Ten members appointed by the Governor, from nominees submitted by Legislative leadership;
- Two at-large members, appointed by the Governor;
- Two physicians with active medical staff privileges at one of the HHSC's health facilities, who are elected by HHSC's board of directors; and
- The Director of Health, as an Ex Officio voting member.

In June 2007, the State Legislature enacted Act 113, SLH of 2007. The Act, amends HRS Chapter 323F to allow for the assimilation of Kahuku Hospital into the HHSC in a manner and to an extent to be negotiated between Kahuku Hospital and the HHSC. The Act appropriated $3,900,000 to pay for the costs of assimilating Kahuku Hospital into the HHSC and to operate the facility. On March 14, 2008, the asset purchase was completed for a purchase price of approximately $2,652,000 in cash, including transaction costs of $197,000, and the facility is now operating as Kahuku Medical Center. The results of operations of Kahuku Medical Center are included in the HHSC's financial statements commencing on March 14, 2008.

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

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities, and fund balances between the Department of Health and the HHSC pursuant to Act 262 have not been finalized as of June 30, 2008. Accordingly, the assets, liabilities, and net assets of HHSC reflected in the accompanying consolidated statements of net assets may be significantly different from those eventually included in the final settlement.

The HHSC is divided into five regions and currently operates the following facilities:

East Hawaii Region:
- Hilo Medical Center
- Hale Ho'ola Hamakua
- Ka'u Hospital
- Yukio Okutsu Veterans Care Home

West Hawaii Region:
- Kona Community Hospital
- Kohala Hospital

Kauai Region:
- Kauai Veterans Memorial Hospital
- Samuel Mahelona Memorial Hospital

Maui Region:
- Maui Memorial Medical Center
- Kula Hospital
- Lanai Community Hospital

Oahu Region:
- Leahi Hospital
- Maluhia
- Kahuku Medical Center

Hawaii Tourism Authority — The Hawaii Tourism Authority (HTA) was established on January 1, 1999 by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (the "Center") was transferred to the HTA from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA is governed by a board of directors comprised of 13 voting and two nonvoting members. The governor appoints 12 voting members. In addition, the Director of DBEDT or a designated representative is a voting member and the director of the Department of Transportation and the chairperson of the board of directors of the Department of Land and Natural Resources or designated representatives are nonvoting members.

Hawaii Community Development Authority — The Hawaii Community Development Authority (HCDA) was established as a corporate body to be placed within DBEDT for administrative purposes. The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The HCDA has redevelopment responsibility for the Kaka`ako and Kalaeloa Community Development Districts.

HRS Chapter 206E states that the HCDA shall be a body corporate and a public instrumentality of the State. The HCDA is composed of 18 voting members, 13 of whom vote on issues related to Kaka`ako and Kalaeloa, and five of whom vote only on Kalaeloa matters. The 18 members consist of the following:

- Thirteen members that vote on issues related to Kaka`ako and Kalaeloa:
  - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;
  - Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;
  - Four at-large members appointed by the Governor;
  - The Director of Budget and Finance, as an Ex Officio voting member;
  - The Director of DBEDT, as an Ex Officio voting member;
  - The Comptroller of the Department of Accounting and General Services, an Ex Officio voting member; and

  - The Director of Transportation, as an Ex Officio voting member.

- Five members appointed by the Governor that vote only on issues related to Kalaeloa:
  - The Chairperson of the Hawaiian Homes Commission;
  - The Director of the City and County of Honolulu Department of Planning and Permitting;
  - Two members from the surrounding community, one of which is selected by the Mayor of the City and County of Honolulu; and
  - One member who is a Hawaiian Cultural Specialist.

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

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

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

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

The HHRF is administered and operated by a board of directors. The board of directors 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 (DAGS), 1151 Punchbowl Street, Room 400, Honolulu, Hawaii 96813.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation —

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

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

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

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

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

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements — The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. Agency Funds do not have a measurement focus, and report only assets and liabilities.

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

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

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

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

Governmental Fund Types — The State reports the following major Governmental Funds:

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

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

- Med-Quest Special Revenue Fund – This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- Special Revenue Funds — These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

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

Proprietary Fund Type — Enterprise Funds — The major Enterprise Funds are comprised of the following:

- Department of Transportation — Airports Division ("Airports") — Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

- Department of Transportation — Harbors Division ("Harbors") — Harbors maintains and operates the State's commercial harbors system.

- Unemployment Compensation Fund — This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Revolving Treatment Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

Fiduciary Fund Types —

- EUTF — The EUTF accounts for retiree healthcare benefits, which includes medical, dental, and life insurance coverage.

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

Component Units — Component Units are comprised of (1) the UH, which is comprised of the State's public institutions of higher education; (2) the HHFDC, which finances housing programs for residents of the State; (3) the HPHA, which manages state housing programs; (4) the HHSC, which was established to provide quality health care for all of the people of the State; (5) the HTA, which manages the State's convention center as well as markets the State's visitor industry; (6) the HCDA, which coordinates private and public community development for residents of the State; and (7) the HHRF, which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

Cash and Cash Equivalents — Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and 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.

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

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

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

Investments — Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

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.

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.

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

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

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

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

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

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

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

Long-Term Obligations — In the Government-Wide financial statements, Proprietary Fund financial statements, and 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, or Component Units statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

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

Net Assets and Fund Equity — In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

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

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

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

Nonexchange Transactions — The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

Effective July 1, 2007, HHSC changed its accounting policy to comply with the State's accounting policy to recognize general operating and capital appropriations at the time allotments are made available to HHSC for expenditure. Prior to that date, general operating appropriations were recognized on a monthly basis over the year that the appropriations pertained to, and capital appropriations were recognized at the time the State reimbursed HHSC for the expenditures incurred. The effect of the change was to increase net assets in 2008, by $30,815,000.

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

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 $1 million per occurrence of property losses, the first $4 million with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $175 million, except for flood and earthquake, which individually is a $175 million aggregate loss, and terrorism which is $50 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is $10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of $25 million per occurrence and $29 million in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental 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.

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

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

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

New Accounting Pronouncements

GASB Statement No. 49 — The Government Accounting Standards Board (the “GASB”) issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), effective for periods beginning after December 15, 2007. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The State is currently evaluating the impact that GASB 49 will have on its financial statements.

GASB Statement No. 50 — The GASB issued Statement No. 50, *Pension Disclosures* (GASB 50), effective for periods beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. Adoption of GASB 50 resulted in additional disclosures and RSI included in the State’s basic financial statements for the fiscal year ended June 30, 2008. See Note 11.

GASB Statement No. 51 — The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), effective for periods beginning after June 15, 2009. This statement establishes accounting and financial reporting requirements for intangible assets. The State is currently evaluating the impact that GASB 51 will have on its financial statements.

GASB Statement No. 52 — The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* (GASB 52), effective for periods beginning after June 15, 2008. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The State is currently evaluating the impact that GASB 52 will have on its financial statements.

GASB Statement No. 53 — The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), effective for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are complex financial arrangements used by governments to manage specific risks or to make investments. The Statement will require governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. The State is currently evaluating the impact that GASB 53 will have on its financial statements.

GASB Statement No. 54 — The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), effective for periods beginning after June 15, 2010, with early adoption is encouraged. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources in governmental funds. The Statement provides for classification of fund balances as nonspendable, restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent. The State is currently evaluating the impact that GASB 54 will have on its financial statements.

GASB Statement No. 55 — The GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 55), effective upon issuance in March 2009. This Statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The State believes that this Statement will make it easier to identify and apply all relevant guidance when preparing future financial statements.

GASB Statement No. 56 — The GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56), effective upon issuance in March 2009. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statement on Auditing Standards. The three issues not included in the authoritative literature that establishes accounting principles are: related party transactions, going concern considerations, and subsequent events. The GASB believes that presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. The State believes that the Statement will improve financial reporting by bringing the authoritative accounting and financial reporting literature together in one place.

2. 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 of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase agreements with federally-insured financial institutions.

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 cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2008, was $2,212,455,000 and $423,420,000, respectively, for the Primary Government and $199,703,000 for the Fiduciary Funds.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the

Primary Government and Fiduciary Funds amounted to $1,827,069,000 at June 30, 2008. Of that amount, $1,826,709,000 represents 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. Bank balances of $527,459,000 represents deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

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

The following tables present the State's investments and maturities at June 30, 2008 (amounts expressed in thousands).

		Maturity (in years)		
	Fair Value	Less than 1	1–5	>5
Investments — Primary Government:				
Student loan auction rate securities	$ 610,052	$ -	$ -	$ 610,052
Certificates of deposit	94,897	94,897	-	-
U.S. government securities	637,164	152,920	484,244	-
Repurchase agreements	13,557	13,150	407	-
	$ 1,355,670	$ 260,967	$ 484,651	$ 610,052
Investments — Fiduciary Funds:				
Student loan auction rate securities	$ 28,925	$ -	$ -	$ 28,925
Certificates of deposit	4,499	4,499	-	-
U.S. government securities	40,110	9,626	30,484	-
Repurchase agreements	643	623	20	-
	$ 74,177	$ 14,748	$ 30,504	$ 28,925

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

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

The State's investments include auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. In 2008, auctions have failed and investors without the ability to hold such securities until maturity have taken significant losses. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. During 2008, the State recorded an impairment adjustment of $114,043,000 to reduce the carrying value of the State's auction rate securities to their fair value at June 30, 2008.

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

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

3. CAPITAL ASSETS

For the fiscal year ended June 30, 2008, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities			
	Balance, July 1,2007	Additions	Deletions	Balance, June 30,2008
Capital assets not being depreciated:				
Land and land improvements	$ 2,014,376	$ 23,244	$ (135)	$ 2,037,485
Construction in progress	733,327	407,046	(299,384)	840,989
Total capital assets not being depreciated	2,747,703	430,290	(299,519)	2,878,474
Capital assets being depreciated:				
Infrastructure	7,923,678	139,412	(395)	8,062,695
Buildings and improvements	2,958,918	134,270	(6,497)	3,086,691
Equipment	306,412	28,030	(6,440)	328,002
Total capital assets being depreciated	11,189,008	301,712	(13,332)	11,477,388
Less accumulated depreciation:				
Infrastructure	(3,767,261)	(232,186)	46	(3,999,401)
Buildings and improvements	(1,556,083)	(90,207)	5,624	(1,640,666)
Equipment	(230,846)	(30,809)	5,765	(255,890)
Total accumulated depreciation	(5,554,190)	(353,202)	11,435	(5,895,957)
Total capital assets	$ 8,382,521	$ 378,800	$ (301,416)	$ 8,459,905

	Business-Type Activities			
	Balance, July 1, 2007	Additions	Deletions	Balance, June 30, 2008
Capital assets not being depreciated:				
Land and land improvements	$ 575,191	$ 9,824	$ -	$ 585,015
Construction in progress	205,223	166,053	(79,481)	291,795
Total capital assets not being depreciated	780,414	175,877	(79,481)	876,810
Capital assets being depreciated:				
Buildings and improvements	2,649,372	80,186	-	2,729,558
Equipment	243,070	9,184	(26,811)	225,443
Total capital assets being depreciated	2,892,442	89,370	(26,811)	2,955,001
Less accumulated depreciation:				
Buildings and improvements	(1,361,082)	(88,795)	-	(1,449,877)
Equipment	(166,515)	(9,144)	26,732	(148,927)
Total accumulated depreciation	(1,527,597)	(97,939)	26,732	(1,598,804)
Total capital assets	$ 2,145,259	$ 167,308	$ (79,560)	$ 2,233,007

Depreciation expense for the fiscal year ended June 30, 2008 was charged to functions/programs of the Primary Government as follows:

	2008
Governmental activities:	
Highways	$ 230,328
Lower education	57,955
General government	18,593
Public safety	11,861
Urban redevelopment and housing	10,871
Conservation of natural resources	10,382
Health	6,414
Economic development and assistance	2,952
Welfare	2,892
Culture and Recreation	954
Total depreciation expense — governmental activities	$ 353,202
Business-type activities:	
Airports	$ 80,571
Harbors	17,227
DWTRF	83
EUTF	48
WPCRF	10
Total depreciation expense — business-type activities	$ 97,939

4. 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 are being retired from the resources of the Proprietary Funds — Airports and Harbors and are recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues, except Series BL, issued December 6, 1988; certain maturities of Series BQ, issued November 28, 1989; Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA, issued January 1, 1993; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; Series CS, issued April 1, 1998; Series CY, issued February 15, 2002; and Series DL and DM, issued May 20, 2008, contain call provisions (call prices range from $100 to $101). Stated interest rates range from 2.800% to 6.000%.

In fiscal year 2008, the State issued general obligation bonds, Series DK and DM dated May 20, 2008, for the amounts of $375,000,000 and $25,000,000, respectively. Interest rates range from 3% to 5%. The series DK bonds maturing after May 1, 2018, will be subject to redemption at the option of the State at any time on and after May 1, 2018, at a price equal to the principal amount thereof plus accrued interest to the redemption date. The bonds were issued for the purpose of financing the Hawaiian Home

Lands Trust settlement and various public improvement projects. The series DM bonds are not subject to optional redemption by the State prior to their respective stated maturities. All bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

On May 20, 2008, the State issued $29,010,000 of general obligation refunding bonds, Series DL, with an interest rates ranging between 3.00% to 5.00% to advance refund $28,805,000 of general obligation bonds series, CP. The net proceeds of $29,408,000 (including a premium of $500,000 and after payment of $103,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. As a result of the advance refunding, the State reduced its total debt service payments over the next 10 years by $5,798,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $5,439,000. The series DL bonds are not subject to optional redemption by the State prior to their respective stated maturities. The series DL bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2008, $605,610,000 of bonds outstanding is considered defeased.

At June 30, 2008, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 3,603,485
Noncallable	843,444
Total general obligation bonds outstanding	4,446,929
Less amount recorded as a liability of:	
Proprietary Funds — Harbors	38,329
Proprietary Funds — Airports	28
	38,357
Amount recorded in the governmental activities of the Primary Government	$ 4,408,572

A summary of general obligation bonds outstanding by series as of June 30, 2008, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
BL	December 6, 1988	7.681%	December 1, 2008	$ 65,001	$ 4,065
BQ	November 28, 1989	7.150%	December 1, 2008–2009	80,005	8,889
BW	March 1, 1992	6.250%–6.375%	March 1, 2011–2012	100,000	11,015
BZ	October 1, 1992	6.000%	October 1, 2008–2012	200,000	62,500
CA	January 1, 1993	5.500%–8.000%	January 1, 2009–2013	90,000	25,000
CC	February 1, 1993	5.125%	February 1, 2009	334,860	23,915
CH	November 1, 1993	4.750%–6.000%	November 1, 2008–2013	250,000	83,320
CI	November 1, 1993	4.750%–4.900%	November 1, 2008–2010	316,915	63,375
CL	March 1, 1996	6.000%	March 1, 2009–2010	100,000	11,110
CM	December 1, 1996	6.000%–6.500%	December 1, 2008–2016	150,000	74,985
CN	March 1, 1997	6.000%	March 1, 2009	350,000	20,045
CO	March 1, 1997	6.000%	September 1, 2008–2010, March 1, 2009–2011	231,755	73,705
CP	October 1, 1997	5.500%	October 1, 2008–2017	200,000	33,140
CS	April 1, 1998	5.000%	April 1, 2009	336,620	55,575
CT	September 15, 1999	5.250%–5.625%	September 1, 2008–2012	300,000	34,705
CU	October 15, 2000	4.750%–5.750%	October 1, 2008–2012	150,000	37,520
CV	August 1, 2001	4.800%–5.500%	August 1, 2008–2021	300,000	219,685
CW	August 1, 2001	4.000%–5.500%	August 1, 2008–2015	156,750	116,980
CX	February 15, 2002	4.000%–5.500%	February 1, 2009–2022	250,000	179,555
CY	February 15, 2002	4.000%–5.750%	February 1, 2009–2015	319,290	258,840
CZ	November 26, 2002	2.900%–5.500%	July 1, 2008–2022	300,000	158,060
DA	September 16, 2003	2.800%–5.250%	September 1, 2008–2023	225,000	217,885
DB	September 16, 2003	2.800%–5.250%	September 1, 2008–2016	188,650	188,650
DD	May 13, 2004	3.500%–5.250%	May 1, 2011–2024	225,000	182,825
DE	November 10, 2004	2.625%–5.000%	October 1, 2009–2024	225,000	225,000
DF	June 15, 2005	3.000%–5.000%	July 1, 2009–2025	225,000	225,000
DG	June 15, 2005	5.000%	July 1, 2009–2017	722,575	722,575
DI	March 23, 2006	3.500%–5.500%	March 1, 2010–2026	350,000	350,000
DJ	April 12, 2007	3.625%–5.000%	April 1, 2011–2027	350,000	350,000
DK	May 20, 2008	5.000%	May 1, 2012–2028	375,000	375,000
DL	May 20, 2008	3.000%–5.000%	May 1, 2012–2018	29,010	29,010
DM	May 20, 2008	3.330%–4.670%	May 1, 2009–2014	25,000	25,000
					$ 4,446,929

The general obligation bonds outstanding financed the Hawaiian Homes Lands Trust settlement and the acquisition, construction, extension, or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the bond premium activities for fiscal year 2008 is as follows (amounts expressed in thousands):

Balance — July 1, 2007	$ 229,082
Additions — Series DK & DL	19,375
Current-year amortization	(27,492)
Balance — June 30, 2008	$ 220,965

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

Fiscal Year	Principal	Interest	Total
2009	$ 342,395	$ 242,903	$ 585,298
2010	336,769	211,894	548,663
2011	358,625	181,703	540,328
2012	333,141	164,513	497,654
2013	347,451	147,662	495,113
2014—2018	1,368,631	503,280	1,871,911
2019—2023	862,996	233,221	1,096,217
2024—2028	458,564	50,606	509,170
	$ 4,408,572	$ 1,735,782	$ 6,144,354

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

Fiscal Year	Principal	Interest	Total
2009	$ 9	$ 1,832	$ 1,841
2010	976	1,859	2,835
2011	1,150	1,819	2,969
2012	1,609	1,772	3,381
2013	1,679	1,702	3,381
2014-2018	9,679	7,225	16,904
2019-2023	12,289	4,615	16,904
2024-2028	10,966	1,350	12,316
	$ 38,357	$ 22,174	$ 60,531

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, 2008, was $400,030,000.

At June 30, 2008, general obligation bonds authorized but unissued were approximately $1,094,586,000.

5. REVENUE BONDS PAYABLE

Governmental Activities — On March 15, 2005, the Department of Transportation — Highways Division (Highways) issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2025.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with interest rates ranging from 3% to 5.25% to advance refund $45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The bonds are payable semiannually on January and July 1 through 2013.

On October 25, 2001, Highways issued $70,000,000 of State of Hawaii Highway Revenue Bonds, Series of 2001. The bonds bear interest at rates ranging from 3.75% to 5.25% and are payable semiannually on January and July 1 through July 2022.

On October 31, 2000, Highways issued State of Hawaii Highway Revenue Bonds, Series of 2000, in the principal amount of $45,360,000. The bonds bear interest at rates ranging from 4.8% to 5.5% and mature in annual installments through July 2010.

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 was used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates ranging from 4.5% to 5.5% and mature in annual installments through July 2018.

On September 1, 1996, Highways issued $55,000,000 in State of Hawaii Highway Revenue Bonds, Series of 1996. The bonds bear interest at 6% and mature in increasing annual installments through July 2009.

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

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

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2008, bonds outstanding considered defeased amounted to $102,570,000.

The following is a summary of Highways' revenue bonds issued and outstanding at June 30, 2008 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
Highways:					
1996	September 1, 1996	6.00%	July 1, 2008–July 1, 2009	$ 55,000	$ 5,830
1998	July 1, 1998	4.50%–5.50%	July 1, 2008–July 1, 2018	94,920	30,290
2000	October 31, 2000	4.80%–5.50%	July 1, 2008–July 1, 2010	50,000	6,690
2001	October 25, 2001	3.75%–5.25%	July 1, 2008–July 1, 2022	70,000	16,975
2003	April 15, 2003	3.00%–5.25%	July 1, 2008–July 1, 2013	44,940	28,905
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2008–July 1, 2025	60,000	55,820
2005 B	March 15, 2005	3.00%–5.25%	July 1, 2010–July 1, 2021	123,915	123,915
					$268,425

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

Fiscal Year	Principal	Interest	Total
2009	$ 15,495	$ 12,597	$ 28,092
2010	16,150	11,880	28,030
2011	16,935	11,156	28,091
2012	17,570	10,445	28,015
2013	18,305	9,646	27,951
2014-2018	106,495	33,770	140,265
2019-2023	64,685	9,646	74,331
2024-2026	12,790	924	13,714
	$ 268,425	$ 100,064	$ 368,489

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

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

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2008 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2000A, refunding	5.50%-6.00%	2021	$ 26,415	$ 26,415
2000B, refunding	5.00%-8.00%	2020	261,465	219,125
2001, refunding	4.00%-5.75%	2021	423,255	365,340
			$ 711,135	610,880
Add unamortized premium				8,991
Less:				
Unamortized discount				(679)
Deferred loss on refunding				(11,200)
Current portion				(21,140)
				$ 586,852

The liabilities for refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2008, bonds outstanding considered defeased amounted to $61,130,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provides reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverage for fire, workers' compensation, and public liability. At June 30, 2008, $180,018,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

Airports Special Facility Revenue Bonds — Airports entered into three special facility lease agreements, two with Continental Airlines, Inc. (Continental) in November 1997 and July 2000, and one with Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. (Sky Chefs) effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $35,855,000 at June 30, 2008.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2008:

$25,255,000 Issue

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

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

$16,600,000 Issue

On July 15, 2000, Airports issued $16,600,000 of term special facility bonds (Continental), 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), 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 or, if the facilities are destroyed or damaged extensively, at 100% of principal plus interest.

$6,600,000 Issue

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2003, at the option of Airports, upon the request of Sky Chefs, 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.

Special facility revenue bonds payable at June 30, 2008 consisted of the following (amounts expressed in thousands):

	Continental		Sky Chefs	Total
Current portion	$ 700	$ -	$ 400	$ 1,100
Noncurrent portion	11,630	21,725	1,400	34,755
	$ 12,330	$ 21,725	$ 1,800	$ 35,855

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

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

The following is a summary of the Harbors revenue bonds as of June 30, 2008 (amounts expressed in thousands):

				Current			
Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Principal Due July 1, 2008	Principal Due January 1, 2009	Total	Noncurrent
2000	July 1, 2029	4.50%–6.00%	$ 79,405	$ 2,500	$ -	$ 2,500	$ 59,020
2002	July 1, 2019	3.00%–5.50%	24,420	2,320	-	2,320	11,665
2004	January 1, 2024	2.50%–6.00%	52,030	-	3,425	3,425	30,715
2006	January 1, 2031	4.00%-5.25%	96,570	-	2,200	2,200	90,305
2007	July 1, 2027	3.95%–5.75%	56,290	625	-	625	51,020
			$ 308,715	5,445	5,625	11,070	242,725
Add unamortized premium				-	-	349	2,507
Less:							
Unamortized discount				-	-	(8)	(84)
Unamortized deferred loss on refunding				-	-	(493)	(5,614)
				$ 5,445	$ 5,625	$ 10,918	$ 239,534

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

Fiscal Year	Principal	Interest	Total
2009	$ 33,380	$ 48,126	$ 81,506
2010	34,055	46,333	80,388
2011	36,235	44,197	80,432
2012	35,825	41,944	77,769
2013	58,565	39,750	98,315
2014-2018	336,300	144,148	480,448
2019-2023	235,670	46,085	281,755
2024-2028	51,380	13,158	64,538
2029-2031	22,125	2,116	24,241
	$ 843,535	$ 425,857	$ 1,269,392

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not include debt service reserves as of June 30, 2008, which are held in anticipation of principal and interest payments due on July 1, 2008, and January 1, 2009.

Revenue Bonds Authorized but Unissued — At June 30, 2008, revenue bonds authorized but unissued were approximately $3,310,492,000.

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, 2008, amounted to $1,609,164,000. At June 30, 2008, special purpose revenue bonds of $1,732,800,000 were authorized but unissued.

Improvement District Bonds — The HCDA 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. There were no bonds outstanding as of June 30, 2008.

6. CHANGES IN LONG-TERM LIABILITIES

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

	Governmental Activities						
	Balance — July 1, 2007 (as previously reported)	Adjustments (Note 15)	Balance — July 1, 2007 (restated)	Additions	Deductions	Balance — June 30, 2008	Due Within One Year
General obligation bonds payable — net	$ 4,079,714	$ 255,167	$ 4,334,881	$ 426,312	$ (352,621)	$ 4,408,572	$ 342,395
Accrued vacation payable	183,868	-	183,868	83,329	(71,576)	195,621	64,459
Revenue bonds payable	283,310	-	283,310	-	(14,885)	268,425	15,495
Reserve for losses and loss adjustment costs	175,509	-	175,509	13,032	(33,238)	155,303	43,214
Other postemployment benefits liability	-	-	-	353,936	-	353,936	-
Capital lease obligations	79,090	-	79,090	-	(3,610)	75,480	3,795
Total	$ 4,801,491	$ 255,167	$ 5,056,658	$ 876,609	$ (475,930)	$ 5,457,337	$ 469,358

	Business-Type Activities						
	Balance — July 1, 2007 (as previously reported)	Adjustments (Note 15)	Balance — July 1, 2007 (restated)	Additions	Deductions	Balance — June 30, 2008	Due Within One Year
General obligation bonds payable — net	$ 37	$ 35,631	$ 35,668	$ 2,698	$ (9)	$ 38,357	$ 9
Accrued vacation and retirement benefits payable	10,035	-	10,035	5,365	(5,109)	10,291	3,239
Revenue bonds payable	942,810	-	942,810	53,318	(98,486)	897,642	33,310
Reserve for losses and loss adjustment costs	4,658	-	4,658	1,350	(1,242)	4,766	1,216
Other postemployment benefits liability	-	-	-	8,580	-	8,580	-
Other	953	-	953	-	-	953	-
	958,493	35,631	994,124	71,311	(104,846)	960,589	37,774
Add unamortized premium	2,232	-	2,232	929	(305)	2,856	349
Less:							
Unamortized net discount	(2,001)	-	(2,001)	-	1,909	(92)	(8)
Deferred loss on refunding	(3,692)	-	(3,692)	(2,478)	63	(6,107)	(493)
	$ 955,032	$ 35,631	$ 990,663	$ 69,762	$ (103,179)	$ 957,246	$ 37,622

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 85%, 14%, and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds, and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2008.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2008 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Capital Projects Fund	$ 89,900	$ -
Nonmajor Governmental Funds	986	42
	90,886	42
Capital Projects Fund:		
General Fund	-	89,900
Nonmajor Governmental Funds	-	39,028
	-	128,928
Nonmajor Governmental Funds:		
General Fund	42	986
Capital Projects Fund	39,028	-
Nonmajor Proprietary Fund	2,362	2,362
	41,432	3,348
	$ 132,318	$ 132,318

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.

8. 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, 2008, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 37,470	$ 438,530
Capital Projects Fund — Nonmajor Governmental Funds	136,312	53,092
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	-	53,497
Nonmajor Governmental Funds:		
General Fund	7,037	37,470
Capital Projects Fund	53,092	136,312
Other Nonmajor Governmental Funds	516,048	84,555
Med Quest Special Revenue Fund	53,497	-
	629,674	258,337
	$ 803,456	$ 803,456

The General Fund transferred approximately $431,493,000 to the Nonmajor Governmental Funds for debt service payments and approximately $7,037,000 to subsidize various Special Revenue Funds programs. Approximately $136,312,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

9. LEASES

Lease Commitments

Governmental Activities — The State leases office facilities and equipment under various operating leases expiring through fiscal 2023. Future minimum lease commitments for noncancelable operating leases as of June 30, 2008, were as follows (amounts expressed in thousands):

Fiscal Year	
2009	$ 16,616
2010	13,259
2011	10,119
2012	6,534
2013	2,824
2014-2018	4,644
2019-2023	2,751
Total future minimum lease payments	$ 56,747

Rent expenditures for operating leases for the fiscal year ended June 30, 2008, amounted to approximately $47,655,000.

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.

In November 2006, the State issued $24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State's rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5.00%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

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

Fiscal Year	
2009	$ 7,427
2010	8,061
2011	8,063
2012	8,062
2013	8,062
2014-2018	40,320
2019-2023	12,454
2024-2028	8,556
2029-2032	6,845
Total future minimum lease payments	107,850
Less amount representing interest	(32,370)
Present value of net minimum lease payments	75,480
Less current portion	(3,795)
Noncurrent portion	$ 71,685

Lease Rentals

Airports — Airport-Airline Lease Agreement

Airports and the airline companies serving the Airports system ("signatory airlines") operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. As of the date hereof, the lease extension agreement remains in effect, with annual ad-hoc adjustments to Airports system rates and charges and related terms.

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

Airports — Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). During fiscal 2000, the parties agreed to transfer the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal 1996 through 2008 have been transferred to the PAUCF.

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 $4,452,000 for fiscal 2008.

Airports — System Rates and Charges

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

- Landing fees, net of aviation fuel tax credits, amounted to $36,953,000 for fiscal 2008, based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 36% of the Airports landing fees for overseas flights.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $29,162,000 for fiscal 2008. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per revenue passenger landing.

- Exclusive use premise charges amounted to $33,914,000 for fiscal 2008, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $16,980,000 for fiscal 2008.

- Airports system support charges amounted to $617,000 for fiscal 2008. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

- The affected signatory airlines underpaid their airport system rates and charges by $12,257,000. The Airports Division granted the signatory airlines a waiver for the entire underpayment for the fiscal year ended June 30, 2008.

Airports — Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2008 was approximately $59,123,000.

In fiscal 2006, Airports converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 7 months to 13 years. The balance of $2,939,000 at June 30, 2008, is due as follows: 2009 — $2,816,000, 2010 — $12,000, 2011 — $12,000, and $99,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 39% of total concession fees revenues for the fiscal year ended June 30, 2008.

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

The in-bond concession was rebid in September 2003, and DFS was awarded the lease for the period from October 1, 2003 to May 31, 2006. The lease contract provided for the minimum annual guarantee rent as well as a percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2005 to May 31, 2006, the minimum annual guarantee rent was $37,311,000, and the percentage rent was as follows: (1) for total concession receipts greater than $165 million, but less than $200 million, 22.5% for on-airport sales and 18.5% for off-airport sales; and (2) for total concession receipts greater than $200 million, 30% for on-airport sales, and 22.5% for off-airport sales.

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

On January 3, 2007, DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007 and terminating on May 31, 2017. The lease contract provides for a minimum annual guarantee rent as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2012, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2012 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fifth year of the lease term. Percentage rent during this period is calculated the same as during the first five years of the lease term.

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

Harbors — Aloha Tower Complex Development

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

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

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

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

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

Revenues for the fiscal year ended June 30, 2008 amounted to $25,263,000 and have been included in rental revenues.

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 2059. Those leases generally call for rental increases every five to ten years based on independent appraisals of the fair rental value of the leased property.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2008 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	**Airports**	**Harbors**	**Total**
2009	$ 67,760	$ 9,787	$ 77,547
2010	59,183	8,806	67,989
2011	57,877	8,928	66,805
2012	52,510	8,833	61,343
2013	13,256	8,682	21,938
2014-2018	34,049	32,681	66,730
2019-2023	15,406	24,598	40,004
2024-2028	9,693	21,356	31,049
2029-2033	2,351	17,253	19,604
2034-2038	1,025	10,932	11,957
2039-2043	-	7,141	7,141
2044-2048	-	2,793	2,793
2049-2053	-	2,792	2,792
2054-2058	-	2,420	2,420
2059	-	86	86
	$ 313,110	$ 167,088	$ 480,198

Net Investment in Direct Financing Leases

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2008, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 62,488
Less amount representing interest	(30,722)
	31,766
Cash with trustee and other	4,329
	$ 36,095

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2008, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2009	$ 3,357
2010	3,398
2011	3,716
2012	2,765
2013	2,777
2014 - 2018	13,890
2019 - 2023	9,207
2024 - 2028	26,774
	$ 65,884

10. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

Hawaii Housing Finance and Development Corporation

Amounts payable from the State to the HHFDC include approximately $20,410,000 of amounts due from the State related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual $2.2 million payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using and imputed interest rate. As of June 30, 2008, amounts due from the State included approximately $20,038,000 of principal, net of approximately $3,861,000 of imputed interest, and approximately $372,000 of accrued interest receivable.

Hawaii Health Systems Corporation

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2008, the full amount was not yet repaid to the State.

Hawaii Tourism Authority

In October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Hawaii Convention Center, which is managed by the HTA. In 1999, the State and HTA agreed on a reimbursement schedule whereby HTA's repayments to the State for debt service are to be funded by an allocated portion of the HTA's transient accommodation tax revenue collections and revenue generated from the operation of the Hawaii Convention Center. The terms of the repayment plan requires the HTA to reimburse the State for principal and interest payments at an imputed interest rate of 6% through January 1, 2025. At June 30, 2008, the outstanding principal and aggregate interest amounts required to be reimbursed by the HTA was $276,900,000 and $172,387,000, respectively. For the year ended June, 30 2008, the HTA was required to reimburse the

State $26,435,000 for principal and interest. HTA's scheduled repayments to the State for each of the next five years and thereafter in five-year are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2009	$ 9,815	$ 16,614	$ 26,429
2010	10,405	16,025	26,430
2011	11,030	15,400	26,430
2012	11,690	14,739	26,429
2013	12,390	14,037	26,427
2014-2018	74,035	58,104	132,139
2019-2023	99,080	33,063	132,143
2024-2025	48,455	4,405	52,860
	$ 276,900	$ 172,387	$ 449,287

Subsequent to June 30, 2005, the HTA was informed by the State that it was required to meet its debt service payments for the period from July 1, 2000 to June 30, 2002. The HTA strongly disagreed and is currently in discussions with the State. If the HTA does not prevail, its liability to the State will increase by $52,873,000, consisting of principal and interest of $12,690,000, and 40,183,000, respectively.

Hawaii Hurricane Relief Fund

On June 25, 2002, Act 179 was signed into law by the Governor of the State of Hawaii. The law provides that all interest earned from the principal in the Hurricane Relief Fund be transferred and deposited into the State General Fund each year that the Hurricane Relief Fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2008, interest earned and transferred into the State General Fund amounted to $7,748,000. At June 30, 2008, amounts due to the State General Fund related to the interest transfer amounted to $7,658,000.

11. RETIREMENT BENEFITS

Employee Retirement System

Plan Description

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

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

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

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan, were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2008, 2007, and 2006, were approximately $377,475,000, $341,896,000, and $318,144,000, respectively. The State contributed 100% of its required contribution for those years. Covered payroll for the fiscal year ended June 30, 2008 was approximately $2,657,906,000.

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The State also contributes to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006. HSTA VEBA provides health benefits only to HSTA members, retirees and their dependents. Both the EUTF and the HSTA VEBA plans currently provide medical, prescription drug, dental, vision, chiropractic, and group life insurance benefits. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813. The HSTA VEBA also issues an annual financial report that is available to the public. That report may be obtained by writing to the HSTA VEBA at 1350 South King Street, Suite 230, Honolulu, Hawaii 96814.

The eligibility requirements for retiree health benefits are the same for both plans as follows:

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years of more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at less 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 base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with at less 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 base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding Policy and Annual OPEB Cost

Effective July 1, 2006, the EUTF and HSTA VEBA implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (GASB 43). GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retire healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* as amended.

Effective July 1, 2007, the State implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions* (GASB 45), which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State's base contribution levels to EUTF are established by statutes while the contribution levels to the HSTA VEBA are determined under collective bargaining agreements. In both plans, the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, the net OPEB liability, and the funding status for each of the plans for each of the plans for the fiscal year ended June 30, 2008 (amounts in thousands):

	EUTF	HSTA VEBA
Annual required contribution — annual OPEB cost	$ 429,195	$ 138,954
Contributions made	(160,404)	(12,396)
Increase in net OPEB obligation	268,791	126,558
Net OPEB obligation — beginning of year	-	-
Net OPEB obligation — end of year	317,703	126,558
Annual OPEB Cost	517,755	138,954
Percentage of Annual OPEB Cost Cost Paid	38.6%	8.9%
Net OPEB Obligation	268,791	126,558
Actuarial accrued liability (AAL) July 1, 2007	7,192,331	1,596,561
Funded OPEB plan assets	-	-
Unfunded actuarial accrued liability (UAAL) July 1, 2007	7,192,331	1,596,561
Funded ratio	0%	0%
Covered payroll	1,782,000	680,000
UAAL as percentage of covered payroll	404%	235%

During fiscal 2007, expenditures of $242,697,000 were recognized for post-retirement health care and life insurance benefits, approximately $34,079,000 of which was attributable to the Component Units. During fiscal year 2006, expenditures of $178,675,000 were recognized for post-retirement health care and life insurance benefits, approximately $38,193,000 of which was attributable to the Component Units.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	EUTF	HSTA VEBA
Actuarial valuation date	July 1, 2007	July 1, 2007
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	30 years (closed)	30 years (closed)
Asset valuation method	N/A	N/A
Actuarial assumptions:		
Investment rate of return	5%	5%
Projected salary increases	3.5%	3.5%
Healthcare inflation rate	9.5% initial	9.5% initial
Medical & Rx Pre-65	5% ultimate 10.0% initial	5% ultimate 10.0% initial
Medical & Rx Post-65	5% ultimate	5% ultimate

12. COMMITMENTS AND CONTINGENCIES

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 4). At June 30, 2008, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 52,631
Agriculture	7,692
Natural Resources	4,484
All Other	941
	$ 65,748

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, 2008, accumulated sick leave was approximately $1,393,741,000.

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 Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2008.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2008, the Enterprise Funds had commitments of approximately $317,482,000 for construction and service contracts.

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, 2008, 2007, and 2006, approximated $6,106,000, $12,462,000, and $20,700,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately $1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately $56,063,000 during the fiscal year ended June 30, 2008. As of June 30, 2008, the State expects to receive $27,554,000 for the first six months of fiscal 2009.

Office of Hawaiian Affairs

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

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

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

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

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

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii*, et al., Civil No. 94-0205-01 (1st Cir.) ("*OHA I"*)), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution for damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

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

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

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

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

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

In May 1997, the Acting Administrator of the FAA concurred in writing (FAA Memorandum) with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 ("DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act (Section 340) essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

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

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

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass two bills for such purpose during its 2007 Session.

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

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on

June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008 decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008 with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States … and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate," and allowed the parties until July 17, 2009 to inform the court "whether there is any effective settlement of [the] matter."

Also, OHA filed suit against the Hawaii Housing Authority (the "HHA", since succeeded by the HPHA, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The HFDC and the HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH subsequently was bifurcated into the HHFDC and the HPHA.

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

Department of Hawaiian Home Lands

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 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which: (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by November 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.

In 1997, the Legislature declared its intent to postpone acting upon the panel's recommendations until all claims had been reviewed and forwarded to it.

Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the State Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel unseated on December 31, 1999. As of September 30, 1999, The Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the State Legislature.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS 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 action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special, and punitive damages for breach of trust or fiduciary duty under HRS 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 (1st Cir.) *("Kalima I").* Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.,* Civil No. 99-612 (3rd Cir.); *Silva v. State of Hawaii, et al.,* Civil No. 99-4775-12 (1st Cir.); *Wilhelm v. State of Hawaii, et al.,* Civil No. 99-4774-12 (First Circuit Court); *Williamson v. State of Hawaii, et al.,* Civil No. 99-4773-12 (First Circuit Court); *Hanohano v. State of Hawaii, et al.,* Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiff Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named-plaintiffs in *Kalima I* filed a second class action lawsuit in the State circuit court for declaratory and injunctive relief, and for damages under HRS 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 (1st Cir.) *("Kalima II").* All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II.*

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

The 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, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. The State thereafter secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided could be reviewed by the Supreme Court prior to trail. By an opinion issued on June 30, 2006, the Supreme Court affirmed the plaintiffs were entitled to pursue their claims for damages under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case to the back to trial court for further proceedings.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly *ultra vires* rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first. Trial on the waiting subclass' claims is schedule to begin on August 4, 2009.

Nelson et al., v. Hawaiian Homes Commission

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007 but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina Kawamura in her official capacity as the State's Director of Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the DHHL and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The *Nelson* plaintiffs allege all defendants breached their duties under article XII, sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of article XII, sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the "HHC Act") by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants' motion for entry of summary judgment rejecting all claims that are based on the theory that the Legislature, the State, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for the DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make, were needed to resolve the parties' dispute over the definition and determination of "sufficient sums" as that term is used in article XII, section 1 of the Hawaii Constitution.

The plaintiffs also ask the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL's lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in *Nelson.* The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs' claims in the Individual Claims Cases, and some of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346,900,000 plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervener defendants.

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

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated article XVI, section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in article XVI, section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346,900,000 of employer contributions for 1997, 1998 , and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims. The State intends to defend vigorously against the claims against the State in the above case.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a purported class action in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the "Defendants"). Plaintiffs' First Amended Complaint alleges that Defendants have violated constitutional, contractual and statutory rights of Plaintiffs under article XVI, section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Plaintiffs' action claims that Defendants' conduct constitutes a breach of contract and negligence. Plaintiffs' action seeks declaratory and injunctive relief, damages, prejudgment interest and attorneys' fees and costs. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that: (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003 to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed that decision to the First Circuit Court. By order dated July 23, 2008, the circuit court reversed the decision of the EUTF Board. The circuit court's order held that: (a) "accrued benefits" under article XVI, section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) the State Legislature is not precluded from changing health benefits for prospective employees; (d) HRS Section 87A-23 requires retirees and their dependents to be provided with health benefits plans that provide benefits reasonably approximate to those provided to active employees and their dependents; and (e) certain of the health benefits provided to retirees and their dependents by the EUTF are not reasonably approximate to those provided to active employees and their dependents. The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to this matter. The State is currently considering an appeal of the circuit court's decision.

Department of Education

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers alleging that the DOE has failed to pay substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 – June 30, 2005. The case is currently on appeal, with both the State and Plaintiffs filing appeals. The appeal and cross-appeal have been fully briefed and argued and are pending decision. The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to this matter. The State intends to defend vigorously against the claims against the DOE in the above case.

Other

On April 14, 2008, in *Hawaii Insurers Council v. Lingle*, 184 P.3d 769 (Haw. App. 2008), the Hawaii Intermediate Court of Appeals ruled that past assessments of insurers by the Insurance Division of the Department of Commerce and Consumer Affairs were unlawful taxes rather than regulatory fees. This ruling may impact other specially funded state programs. The State is currently unable to predict with reasonable certainty the magnitude of the impact of this ruling on its specially funded State programs, if any. The Hawaii Supreme Court has taken the matter up on appeal. No hearing has yet been scheduled. The State intends to defend vigorously against the claims against the State in the above case.

13. RISK MANAGEMENT

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

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler & machinery coverage. The limit of loss per occurrence is $175,000,000, except for flood and earthquake which individually is a $175,000,000 aggregate loss and terrorism which is $50,000,000 per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage which has a $100,000 limit per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $10,000,000.

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

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 $25,000,000 per occurrence and $29,000,000 in aggregate.

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.

Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2008 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, 2008 and 2007 (amounts expressed in thousands):

	2008	2007
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 175,509	$ 77,500
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	21,162	117,948
Increase/(decrease) in provision for insured events of prior fiscal years	(8,129)	2,251
Total incurred losses and loss adjustment costs	13,033	120,199
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(9,531)	(2,506)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(23,708)	(19,684)
Total payments	(33,239)	(22,190)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 155,303	$ 175,509

14. SUBSEQUENT EVENTS

University of Hawaii

In the first half of fiscal year 2009, over $68,500,000 in capital improvements program funds were released by the Governor for UH projects. In July 2008, $1,200,000 was released for the Clarence T.C. Ching (Cooke) field improvements, which was dedicated on February 2, 2009. The turf replacement project is in the first phase of the Clarence T.C. Ching Athletics Complex. In August 2008, $60,000,000 was released for plans, designs and construction for the capital renewal, deferred maintenance, health and safety, and infrastructure projects at UH campuses. In September 2008, $3,500,000 was released for the plans, design and construction of the upgrade of the existing air conditioning and ventilation systems at Bilger Addition and the renovation of existing facilities at Hawaii Community College Manono Campus. In November 2008, $3,800,000 was released for plans and design for an information Technology and Emergency Operations Center Building.

In October 2008, the UH Board of Regents approved a reduced operating budget for fiscal years 2010 and 2011. The UH reduced the base budget by $13,500,000, as requested by the Governor. Due to the current economic conditions, further restrictions are highly likely and may affect the 2009 fiscal year appropriated funds.

In January 2009, the UH had groundbreaking ceremonies for the new West Oahu campus in the City of Kapolei. Also that month, the lease negotiations with the HCDA were successfully concluded for the site of the UH Cancer Research Center of Hawaii research and clinical trials facility.

Hawaii Housing Finance and Development Corporation

On July 1, 2008, the HHFDC redeemed $5,075,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund.

Hawaii Public Housing Authority

Subsequent to year-end, the HPHA was named as a defendant in a lawsuit regarding the living conditions at Kuhio Park Terrace. The lawsuit is in its discovery stage as such its outcome is not determinable.

Hawaii Health Systems Corporation

In September 2008, HHSC sold its interest in a lab partnership to Sonic Healthcare USA. According to the terms of the sale, the majority of the sales proceeds were distributed to each of the partners in the partnership according to their ownership percentage in the partnership, with a certain portion being held in escrow to cover unanticipated compliance claims, to be distributed to the partners at certain dates in the future. HHSC’s share of the sale proceeds was $8,484,000, which was used to pay down HHSC’s accounts payable to the partnership as stated in the sale agreement.

In February 2009, the Kauai Regional Board directed management to cease work on the design and building of a new hospital building and renovation of the existing hospital and medical office buildings located at Kauai Veterans Memorial Hospital (KVMH), based on the results of an independent third-party financial feasibility study. The total architectural and design fees incurred for this project was approximately $3,900,000 at June 30, 2008, and the total fees incurred as of the date of this report was $7,200,000. Management is evaluating the architectural and design work performed to date to determine if there are any portions of that work that can be used in future projects on the KVMH campus.

15. RESTATEMENTS

Subsequent to the issuance of the State's fiscal year 2007 financial statements, management determined that the financial statements were misstated. As a result, certain amounts in the Government-Wide financial statements, Fund financial statements, Component Units' financial statements, and supplementary information have been restated from the amounts previously reported. The restatements are summarized below and are recorded as adjustments to the beginning net assets of the Government-Wide and Component Units' financial statements, and beginning fund balance in the Governmental Funds financial statement.

Government-Wide Financial Statements:

- Subsequent to the issuance of the fiscal year 2007 financial statements, management determined that general obligation bonds issued in prior periods should have been reported as long-term debt of the Harbors Enterprise Fund, a business-type activity, and not as an obligation of the governmental-type activities. Correction of the error resulted in a $35,631,000 beginning fund balance reduction adjustment to the Capital Projects Fund, but did not have an effect on the overall beginning net assets of the Government-Wide financial statements.

- Subsequent to the issuance of the fiscal year 2007 financial statements, management determined that loans made in prior periods to Component Units, HTA and UH in the amounts of $286,165,000 and $4,633,000, respectively, should be reported as intra-entity loan receivable rather than general obligation debt of the Component Units. Correction of the error did not have an effect on the overall beginning net assets of the Government-Wide financial statements.

Component Units:

- Subsequent to the issuance of HPHA's fiscal year 2007 financial statements, management determined that the financial statements were misstated for erroneously expensed capital assets of $579,000, unrecorded appropriations allotted by the State of $556,000, unrecorded litigation settlement of $530,000, offset by unrecorded accrued expenses of $297,000. As a result of these misstatements, HPHA's net assets as of June 30, 2007, were increased by $1,368,000.

- Subsequent to the issuance of HCDA's fiscal year 2007 financial statements, management determined that the financial statements were misstated for capital assets previously transferred to other governmental jurisdictions and utility companies upon completion of improvement district projects and not recognized as dispositions in the Government-Wide financial statements. These capital assets were primarily infrastructure networks constructed on lands owned by others and completed at various dates between 1988 and 2004. Accordingly, HCDA's net assets as of June 30, 2007, were decreased by $78,343,000.

The effect of the abovementioned restatements and accounting changes on the Statement of Net Assets is as follows (amounts expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
NET ASSETS — Beginning of year — as previously reported	$ 5,744,592	$ 3,238,249	$ 8,982,841	$ 2,873,536
ADJUSTMENTS:				
Overstatement of beginning capital assets	-	-	-	(77,764)
Unrecorded State allotted appropriations	-	-	-	556
Accrued litigation settlement	-	-	-	530
Accrued expenses	-	-	-	(297)
Reversal of interfund receivable	(35,631)	35,631	-	-
Reversal of Harbors long-term debt	35,631	(35,631)	-	-
Reversal of component unit long-term debt	290,798	-	290,798	-
Recording of component unit loan receivable	(290,798)	-	(290,798)	-
Total adjustments	-	-	-	(76,975)
NET ASSETS — Beginning of year — as restated	$ 5,744,592	$ 3,238,249	$ 8,982,841	$ 2,796,561

Governmental Funds:

- Subsequent to the issuance of the fiscal year 2007 financial statements, management determined that general obligation bonds issued in prior periods should have been reported as long-term debt of the Harbors Enterprise Fund and not as an obligation of the governmental-type activities. Correction of the error resulted in a $35,631,000 beginning fund balance adjustment to the Capital Projects Fund to reverse amounts previously reported as an interfund receivable from the Harbors Enterprise Fund. The effects of the abovementioned restatements on the governmental fund balance is as follows (amounts expressed in thousands):

	Governmental Funds	
	Capital Projects Fund	Total Governmental Funds
NET ASSETS — Beginning of year — as previously reported	$ 24,410	$ 2,384,594
ADJUSTMENTS:		
Reversal of interfund receivable	(35,631)	(35,631)
NET ASSETS — Beginning of year — as restated	$ (11,221)	$ 2,348,963

Proprietary Funds:

- Subsequent to the issuance of the Harbors Enterprise Fund fiscal year 2007 financial statements, management determined that general obligation bonds issued in prior periods should have been reported as long-term debt of the Harbors Enterprise Fund and not as an obligation of the governmental-type activities. Correction of the error resulted in a $35,631,000 adjustment to the Harbors Enterprise Fund to reclassify amounts previously reported as an interfund liability to general obligation bonds liability at June 30, 2007.

- Subsequent to the issuance of the EUTF's fiscal year 2007 financial statements, management determined that the cash and cash equivalents and the premiums receivable from State of Hawaii and counties decreased and increased by $2,816,000, respectively. Accordingly, cash and cash equivalents and premiums receivable from the State of Hawaii and counties balances as previously reported of $56,384,000 and $4,551,000, were restated to $53,568,000 and $7,366,000, respectively. The restatement had no effect on net asset balance at June 30, 2007.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,760,790	$ 2,679,774	$ 2,619,595	$ (60,179)
Net income tax:				
Corporations	129,768	89,620	85,081	(4,539)
Individuals	1,667,437	1,602,316	1,544,645	(57,671)
Inheritance and estate tax	-	-	164	164
Liquor permits and tax	48,489	47,094	45,620	(1,474)
Public service companies tax	140,844	129,975	127,481	(2,494)
Tobacco tax	91,144	87,093	83,443	(3,650)
Tax on premiums of insurance companies	88,000	94,000	94,587	587
Franchise tax (banks and other financial institutions)	19,334	17,804	18,213	409
Transient accommodations tax	15,227	15,227	15,717	490
Other taxes, primarily conveyances tax	15,213	13,923	6,156	(7,767)
Total taxes	4,976,246	4,776,826	4,640,702	(136,124)
Non-taxes:				
Interest and investment income	61,374	48,893	69,101	20,208
Charges for current services	171,160	190,826	208,428	17,602
Intergovernmental	5,347	5,536	4,634	(902)
Rentals	1,925	738	461	(277)
Fines, forfeitures, and penalties	534	566	23,508	22,942
Licenses and fees	1,002	1,007	1,510	503
Revenues from private sources	2,800	2,800	2,259	(541)
Debt service requirements	47,357	47,357	49,621	2,264
Other	146,169	154,242	204,523	50,281
Total non-taxes	437,668	451,965	564,045	112,080
Total revenues	5,413,914	5,228,791	5,204,747	(24,044)
EXPENDITURES:				
General government	722,431	754,448	706,696	47,752
Public safety	257,592	255,641	250,870	4,771
Conservation of natural resources	38,364	52,838	49,103	3,735
Health	443,068	464,114	461,946	2,168
Hospitals	53,612	86,295	79,556	6,739
Welfare	728,949	762,672	746,593	16,079
Lower education	2,070,094	2,117,359	2,074,358	43,001
Higher education	670,485	682,548	676,553	5,995
Other education	5,435	5,482	5,176	306
Culture and recreation	41,721	46,142	45,731	411
Urban redevelopment and housing	1,169	1,208	980	228
Economic development and assistance	31,328	39,966	38,110	1,856
Housing	38,505	48,707	43,474	5,233
Social security and pension contributions	222,440	253,521	253,521	-
Other	-	5,318	4,947	371
Total expenditures	5,325,193	5,576,259	5,437,614	138,645
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	88,721	(347,468)	(232,867)	114,601
OTHER FINANCING SOURCES — Transfers in	20,946	40,279	40,040	(239)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ 109,667	$ (307,189)	$ (192,827)	$ 114,362

STATE OF HAWAII

MED-QUEST SPECIAL REVENUE FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
Liquid fuel tax:				
Highways	$ -	$ -	$ -	$ -
Boating	-	-	-	-
Airports	-	-	-	-
Vehicle registration fee tax	-	-	-	-
State vehicle weight tax	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-
Employment and training fund assessment	-	-	-	-
General excise tax	-	-	-	-
Tobacco tax	-	-	-	-
Conveyances tax	-	-	-	-
Environmental response tax	-	-	-	-
Hospital and nursing facility tax	-	-	-	-
Transient accommodations tax	-	-	-	-
Franchise tax	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-
Total taxes	-	-	-	-
Non-taxes:				
Interest and investment income	-	-	212	212
Charges for current services	-	-	184	184
Intergovernmental	594,108	594,108	720,028	125,920
Rentals	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	32,000	32,000	14,385	(17,615)
Total non-taxes	626,108	626,108	734,809	108,701
Total revenues	626,108	626,108	734,809	108,701
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	784,650	784,650	739,379	45,271
Lower education	-	-	-	-
Higher education	-	-	-	-
Other education	-	-	-	-
Culture and recreation	-	-	-	-
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	-	-	-	-
Airports	-	-	-	-
Water transportation and terminals	-	-	-	-
Housing	-	-	-	-
Other	-	-	-	-
Total expenditures	784,650	784,650	739,379	45,271
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (158,542)	$ (158,542)	$ (4,570)	$ 153,972

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION − BUDGETARY CONTROL

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) 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 2007 (Act 213, SLH of 2007) and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2007 — 2009 biennial budget.

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

The final legally adopted budget in the accompanying General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2008, there were no expenditures in excess of appropriations in the individual funds.

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

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

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2008, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and over expenditures — actual (budgetary basis)	$ (232,867)	$ (4,570)
Reserve for encumbrances at fiscal year-end *	320,475	13,092
Expenditures for liquidation of prior fiscal year encumbrances	(340,405)	(17,568)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(25,178)	-
Expenditures and operating transfers	40,042	47,679
Tax refunds payable	2,057	-
Accrued liabilities	(27,797)	(54,512)
Accrued revenues	(58,179)	-
Net change in fund balance — GAAP basis	$ (321,852)	$ (15,879)

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

SCHEDULES OF FUNDING PROGRESS

(Amounts in millions)

Primary Government:

EUTF

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/07	$0	$6,056	$6,056	0%	$1,442	420.0%

HSTA-VEBA

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/01/07	$0	$1,597	$1,597	0%	$714	223.7%

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Highways — Accounts for programs related to maintaining and operating land transportation facilities.

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

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

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

Education — Accounts for programs related to instructional education, school food services, and student driver education.

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

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

Regulatory — Accounts for programs related to consumer protection, business registration, and cable television regulation.

Hawaiian Programs — Accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support — Accounts for programs of certain administrative agencies.

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

Debt Service Fund

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

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 99,002	$ 55,586	$ 66,603	$ 30,032	$ 38,727	$ 11,056	$ 10,788
RECEIVABLES:							
Accrued interest	1,259	346	732	4	138	136	125
Notes and loans — net	-	14,023	-	-	-	33	-
Other	20,654	-	-	-	-	-	-
DUE FROM OTHER FUNDS	41,390	-	-	-	-	-	-
INVESTMENTS	91,377	57,944	105,660	414	37,322	21,835	19,194
OTHER ASSETS	-	1	-	-	-	-	-
TOTAL	$ 253,682	$ 127,900	$ 172,995	$ 30,450	$ 76,187	$ 33,060	$ 30,107
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 26,487	$ 9,413	$ 35,466	$ 4,112	$ 10,539	$ 2,064	$ 5,278
Other accrued liabilities	334	849	1,700	166	1,989	275	934
Due to other funds	-	-	-	-	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	26,821	10,262	37,166	4,278	12,528	2,339	6,212
FUND BALANCES:							
Reserved for:							
Continuing appropriations	188,125	31,004	50,930	54,721	41,383	11,443	8,215
Receivables and advances	-	15,039	-	-	-	40	-
Bond redemption and other	-	20,219	-	-	-	-	-
Unreserved for Special Revenue Funds:							
Designated for future expenditures	11,922	60,176	-	-	859	4,000	225
Undesignated	26,814	(8,800)	84,899	(28,549)	21,417	15,238	15,455
Total fund balances	226,861	117,638	135,829	26,172	63,659	30,721	23,895
TOTAL	$ 253,682	$ 127,900	$ 172,995	$ 30,450	$ 76,187	$ 33,060	$ 30,107

Special Revenue Funds							
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
$ 15,658	$ 89,088	$ 96,827	$ 22,718	$ 536,085	$ 27,515	$ -	$ 563,600
185	852	299	91	4,167	-	-	4,167
-	57,161	-	-	71,217	-	-	71,217
-	-	-	-	-	-	-	-
-	(2)	-	-	20,652	-	-	20,652
-	-	-	-	41,390	42	-	41,432
32,839	114,321	102,719	15,073	598,698	-	-	598,698
-	-	-	-	1	-	-	1
$ 48,682	$ 261,420	$ 199,845	$ 37,882	$ 1,272,210	$ 27,557	$ -	$ 1,299,767
$ 2,903	$ 8,612	$ 11,834	$ 7,814	$ 124,522	$ -	$ -	$ 124,522
1,062	212	1,192	600	9,313	-	-	9,313
-	-	-	985	985	2,363	-	3,348
-	-	-	-	-	3,193	-	3,193
3,965	8,824	13,026	9,399	134,820	5,556	-	140,376
4,386	4,866	66,499	20,556	482,128	21,704	-	503,832
-	50,955	-	-	66,034	-	-	66,034
-	143,090	-	-	163,309	-	-	163,309
-	8,414	30,136	8,422	124,154	-	-	124,154
40,331	45,271	90,184	(495)	301,765	297	-	302,062
44,717	252,596	186,819	28,483	1,137,390	22,001	-	1,159,391
$ 48,682	$ 261,420	$ 199,845	$ 37,882	$ 1,272,210	$ 27,557	$ -	$ 1,299,767

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	13,443	1,695	-	-	-	4,691
Transient accommodations tax	-	2,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	4,158	-	-	-	-
Liquid fuel tax	88,233	250	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	55,552	-	5,290	-	-	-	-
Rental motor/tour vehicle surcharge tax	49,196	-	-	-	-	-	-
Total taxes	192,981	15,693	11,143	-	-	-	4,691
Interest and investment income	5,143	2,157	2,124	13	434	511	475
Charges for current services	2,188	18,711	67,987	272	30,038	4,773	13,491
Intergovernmental	186,653	22,766	106,269	427,774	218,033	11,751	38,901
Rentals	-	3,844	-	-	50	2,008	-
Fines, forfeitures, and penalties	1,454	81	1,905	-	-	-	721
Licenses and fees	2,043	590	45	133	776	-	-
Revenues from private sources	-	4	55,798	85	114	-	18
Other	17,607	4,438	1,445	487	8,785	1,612	461
Total revenues	408,069	68,284	246,716	428,764	258,230	20,655	58,758
EXPENDITURES:							
Current:							
General government	-	4,102	191	-	-	-	-
Public safety	-	2,007	-	-	-	250	1,713
Conservation of natural resources	-	53,597	134	-	-	-	-
Health	-	-	275,448	-	-	-	-
Welfare	-	-	-	387,042	-	-	-
Lower education	-	-	-	-	177,894	-	-
Other education	-	-	-	16,913	-	-	-
Culture and recreation	-	7,772	-	-	3,360	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Economic development and assistance	-	4,893	-	-	-	15,660	63,932
Other	-	-	-	-	-	-	-
Highways	205,379	63	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	205,379	72,434	275,773	403,955	181,254	15,910	65,645
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	202,690	(4,150)	(29,057)	24,809	76,976	4,745	(6,887)
OTHER FINANCING SOURCES (USES):							
Issuance of GO Refunding Bonds - Par	-	-	-	-	-	-	-
Issuance of GO Refunding Bonds - Premium	-	-	-	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	-	-	-	-
Transfers in	32	3,680	54,159	6,322	1,577	50	374
Transfers out	(187,979)	(1,888)	(16,420)	(26,221)	(206)	-	(884)
Total other financing sources (uses)	(187,947)	1,792	37,739	(19,899)	1,371	50	(510)
NET CHANGE IN FUND BALANCES	14,743	(2,358)	8,682	4,910	78,347	4,795	(7,397)
FUND BALANCES — Beginning of year	212,118	119,996	127,147	21,262	(14,688)	25,926	31,292
FUND BALANCES — End of year	$ 226,861	$ 117,638	$ 135,829	$ 26,172	$ 63,659	$ 30,721	$ 23,895

Special Revenue Funds							Total
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ -	$ 2,000
-	-	-	-	19,829	-	-	19,829
-	-	-	-	2,000	-	-	2,000
-	-	1,665	-	5,823	-	-	5,823
-	-	-	1,640	90,123	-	-	90,123
1,745	-	-	-	1,745	-	-	1,745
-	-	-	-	60,842	-	-	60,842
-	-	-	-	49,196	-	-	49,196
3,745	-	1,665	1,640	231,558	-	-	231,558
636	73,918	1,646	339	87,396	-	-	87,396
15,047	684	56,055	19,297	228,543	-	-	228,543
-	13,469	21,574	47,992	1,095,182	-	-	1,095,182
-	10,652	1,039	2,097	19,690	-	-	19,690
2,187	-	296	2,466	9,110	-	-	9,110
10,321	-	15,863	450	30,221	-	-	30,221
-	-	1,087	85	57,191	-	-	57,191
44	11,772	5,782	17,008	69,441	90	-	69,531
31,980	110,495	105,007	91,374	1,828,332	90	-	1,828,422
-	-	33,570	9,531	47,394	-	-	47,394
33,967	-	13,181	64,380	115,498	-	-	115,498
-	-	7	-	53,738	-	-	53,738
-	-	-	-	275,448	-	-	275,448
-	-	13,002	382	400,426	-	-	400,426
-	-	6,539	-	184,433	-	-	184,433
-	-	-	-	16,913	-	-	16,913
-	-	11,851	17,708	40,691	-	-	40,691
-	178,353	-	-	178,353	-	-	178,353
-	-	24	-	84,509	-	-	84,509
-	-	5,352	-	5,352	-	-	5,352
-	-	-	-	205,442	-	-	205,442
-	-	-	-	-	478,735	-	478,735
33,967	178,353	83,526	92,001	1,608,197	478,735	-	2,086,932
(1,987)	(67,858)	21,481	(627)	220,135	(478,645)	-	(258,510)
-	-	-	-	-	29,010	-	29,010
-	-	-	-	-	500	-	500
-	-	-	-	-	(29,510)	-	(29,510)
2,904	50,000	18,323	13,312	150,733	478,941	-	629,674
(2,401)	-	(18,221)	(4,117)	(258,337)	-	-	(258,337)
503	50,000	102	9,195	(107,604)	478,941	-	371,337
(1,484)	(17,858)	21,583	8,568	112,531	296	-	112,827
46,201	270,454	165,236	19,915	1,024,859	21,705	-	1,046,564
$ 44,717	$ 252,596	$ 186,819	$ 28,483	$ 1,137,390	$ 22,001	$ -	$ 1,159,391

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, 2008
(Amounts in thousands)

	Highways			Natural Resources		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget – Positive (Negati
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	84,937	87,885	2,948	230	250	20
Boating	-	-	-	-	-	-
Vehicle registration fee tax	20,351	21,156	805	-	-	-
State vehicle weight tax	29,032	34,010	4,978	-	-	-
Rental/tour vehicle surcharge tax	38,626	49,196	10,570	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	17,400	13,443	(3,957)
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	1,900	2,000	100
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	172,946	192,247	19,301	19,530	15,693	(3,837)
Non-taxes:						
Interest and investment income	8,900	15,901	7,001	2,362	4,202	1,840
Charges for current services	24,584	2,188	(22,396)	18,969	18,711	(258)
Intergovernmental	99,301	186,653	87,352	11,173	20,787	9,614
Rentals	1	-	(1)	2,823	3,844	1,021
Fines, forfeitures and penalties	1,133	1,445	312	64	81	17
Licenses and fees	1,886	2,043	157	650	590	(60)
Revenues from private sources	-	-	-	1	4	3
Other	-	48,521	48,521	2,770	5,481	2,711
Total non-taxes	135,805	256,751	120,946	38,812	53,700	14,888
Total revenues	308,751	448,998	140,247	58,342	69,393	11,051
EXPENDITURES:						
General government	-	-	-	4,233	4,203	30
Public safety	-	-	-	5,255	2,334	2,921
Highways	302,065	249,385	52,680	-	-	-
Conservation of natural resources	-	-	-	83,850	49,946	33,904
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	10,596	7,322	3,274
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	1,174	1,016	158
Other	-	-	-	-	-	-
Total expenditures	302,065	249,385	52,680	105,108	64,821	40,287
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 6,686	$ 199,613	$ 192,927	$ (46,766)	$ 4,572	$ 51,338

Health			Education		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget – Positive (Negativ
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
5,031	5,290	259	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	4,158	4,158	-	-	-
-	-	-	-	-	-
1,800	1,695	(105)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,831	11,143	4,312	-	-	-
1,880	6,251	4,371	424	1,250	826
80,270	104,345	24,075	31,585	30,038	(1,547)
96,539	106,269	9,730	204,197	218,033	13,836
-	-	-	32	50	18
947	1,905	958	-	-	-
789	888	99	732	776	44
53,497	55,798	2,301	10	114	104
93	55,604	55,511	1,780	10,405	8,625
234,015	331,060	97,045	238,760	260,666	21,906
240,846	342,203	101,357	238,760	260,666	21,906
205	199	6	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
389,380	335,773	53,607	-	-	-
-	-	-	-	-	-
-	-	-	434,268	255,655	178,613
-	-	-	-	-	-
-	-	-	4,885	3,761	1,124
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
389,585	335,972	53,613	439,153	259,416	179,737
$ (148,739)	$ 6,231	$ 154,970	$ (200,393)	$ 1,250	$ 201,643

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Human Services			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negati
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	-	-	-
Non-taxes:						
Interest and investment income	-	48	48	456	1,843	1,387
Charges for current services	-	272	272	6,037	4,773	(1,264)
Intergovernmental	298,455	252,726	(45,729)	12,717	11,751	(966)
Rentals	-	-	-	2,405	2,008	(397)
Fines, forfeitures and penalties	-	-	-	-	-	-
Licenses and fees	406	133	(273)	-	-	-
Revenues from private sources	-	85	85	100	-	(100)
Other	-	989	989	17	1,667	1,650
Total non-taxes	298,861	254,253	(44,608)	21,732	22,042	310
Total revenues	298,861	254,253	(44,608)	21,732	22,042	310
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	259,805	234,107	25,698	-	-	-
Lower education	-	-	-	-	-	-
Other education	18,372	15,868	2,504	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	48,371	22,036	26,335
Other	-	-	-	-	-	-
Total expenditures	278,177	249,975	28,202	49,471	22,036	27,435
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 20,684	$ 4,278	$ (16,406)	$ (27,739)	$ 6	$ 27,745

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ 3,566	$ 3,566	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
950	1,125	175	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	1,900	1,745	(155)
950	4,691	3,741	3,900	3,745	(155)
890	1,478	588	1,016	2,056	1,040
18,000	13,491	(4,509)	18,627	15,047	(3,580)
36,733	38,901	2,168	-	-	-
-	-	-	-	-	-
100	721	621	689	2,187	1,498
-	-	-	10,740	10,321	(419)
-	18	18	-	-	-
6	2,649	2,643	3,064	2,948	(116)
55,729	57,258	1,529	34,136	32,559	(1,577)
56,679	61,949	5,270	38,036	36,304	(1,732)
-	-	-	-	-	-
2,289	1,710	579	48,585	36,722	11,863
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
113,954	60,400	53,554	-	-	-
-	-	-	-	-	-
116,243	62,110	54,133	48,585	36,722	11,863
$ (59,564)	$ (161)	$ 59,403	$ (10,549)	$ (418)	$ 10,131

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, 2008
(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessm	-	-	-	-	-	-
Tobacco tax	-	-	-	1,090	1,665	575
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance compani	-	-	-	-	-	-
Total taxes	-	-	-	1,090	1,665	575
Non-taxes:						
Interest and investment income	870	1,460	590	1,490	3,694	2,204
Charges for current services	1	2	1	42,329	58,520	16,191
Intergovernmental	7,564	13,469	5,905	17,559	20,895	3,336
Rentals	2,676	10,375	7,699	6,235	6,496	261
Fines, forfeitures and penalties	-	-	-	259	296	37
Licenses and fees	-	-	-	15,125	15,863	738
Revenues from private sources	-	-	-	950	1,087	137
Other	3,240	5,528	2,288	20,791	872,651	851,860
Total non-taxes	14,351	30,834	16,483	104,738	979,502	874,764
Total revenues	14,351	30,834	16,483	105,828	981,167	875,339
EXPENDITURES:						
General government	-	-	-	923,681	892,968	30,713
Public safety	-	-	-	24,558	11,833	12,725
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	359	25	334
Health	-	-	-	19	19	-
Welfare	-	-	-	16,379	13,372	3,007
Lower education	-	-	-	6,500	6,237	263
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	15,138	13,375	1,763
Urban redevelopment and housing	43,614	27,085	16,529	-	-	-
Economic development and assistance	-	-	-	292	283	9
Other	-	-	-	17,031	5,513	11,518
Total expenditures	43,614	27,085	16,529	1,003,957	943,625	60,332
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (29,263)	$ 3,749	$ 33,012	$ (898,129)	$ 37,542	$935,671

All Other			Total Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ 3,566	$ 3,566
-	-	-	85,167	88,135	2,968
1,300	1,640	340	1,300	1,640	340
-	-	-	25,382	26,446	1,064
-	-	-	29,032	34,010	4,978
-	-	-	38,626	49,196	10,570
-	-	-	950	1,125	175
-	-	-	1,090	5,823	4,733
-	-	-	17,400	13,443	(3,957)
-	-	-	1,800	1,695	(105)
-	-	-	1,900	2,000	100
-	-	-	2,000	2,000	-
-	-	-	1,900	1,745	(155)
1,300	1,640	340	206,547	230,824	24,277
344	726	382	18,632	38,909	20,277
16,373	19,297	2,924	256,775	266,684	9,909
24,540	49,971	25,431	808,778	919,455	110,677
1,912	2,097	185	16,084	24,870	8,786
3,014	2,466	(548)	6,206	9,101	2,895
460	450	(10)	30,788	31,064	276
-	85	85	54,558	57,191	2,633
7,376	29,065	21,689	39,137	1,035,508	996,371
54,019	104,157	50,138	1,230,958	2,382,782	1,151,824
55,319	105,797	50,478	1,437,505	2,613,606	1,176,101
17,126	13,806	3,320	945,245	911,176	34,069
125,480	64,433	61,047	207,267	117,032	90,235
600	-	600	302,665	249,385	53,280
-	-	-	84,209	49,971	34,238
-	-	-	389,399	335,792	53,607
550	339	211	276,734	247,818	28,916
-	-	-	440,768	261,892	178,876
-	-	-	18,372	15,868	2,504
16,734	12,025	4,709	47,353	36,483	10,870
-	-	-	43,614	27,085	16,529
-	-	-	163,791	83,735	80,056
-	-	-	17,031	5,513	11,518
160,490	90,603	69,887	2,936,448	2,341,750	594,698
$ (105,171)	$ 15,194	$ 120,365	$ (1,498,943)	$ 271,856	$ 1,770,799

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2008
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$	271,856
RESERVE FOR ENCUMBRANCES AT YEAR-END*		284,378
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES		(284,674)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS		(58,514)
TRANSFERS		18,392
ACCRUED LIABILITIES		(248,008)
ACCRUED REVENUES		236,705
EXCESS OF REVENUES OVER EXPENDITURES — GAAP basis	$	220,135

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

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 16,746	$ 161,843	$ 21,227	$ 199,816
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $245)	118	1,952	165	2,235
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	18,702	2,928	21,630
Other	-	593	876	1,469
Premiums	31,881	-	-	31,881
Prepaid expenses and other assets	9,327	-	-	9,327
Total current assets	58,072	183,090	25,196	266,358
CAPITAL ASSETS				
Construction in progress	1,994	-	-	1,994
Equipment	2,334	54	1,126	3,514
	4,328	54	1,126	5,508
Less accumulated depreciation	(2,203)	(47)	(769)	(3,019)
Net capital assets	2,125	7	357	2,489
Promissory note receivable	-	179,280	46,736	226,016
Total noncurrent assets	2,125	179,287	47,093	228,505
TOTAL	$ 60,197	$ 362,377	$ 72,289	$ 494,863

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2008
(Amounts in thousands)

LIABILITIES	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 145	$ 140	$ 289	$ 574
Other accrued liabilities	195	-	-	195
Accrued vacation, current portion	25	-	-	25
Premiums payable	47,263	-	-	47,263
Total current liabilities	47,628	140	289	48,057
NONCURRENT LIABILITIES:				
Accrued vacation	70	161	38	269
Other postemployment benefit liability	-	152	37	189
TOTAL	47,698	453	364	48,515
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	2,125	7	357	2,489
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	361,917	71,568	433,485
UNRESTRICTED	10,374	-	-	10,374
TOTAL NET ASSETS	$ 12,499	$ 361,924	$ 71,925	$ 446,348

(Concluded)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
OPERATING REVENUES:				
Administrative fees	$ 2,983	$ 1,584	$ 1,472	$ 6,039
Other	-	3,295	232	3,527
Total operating revenues	2,983	4,879	1,704	9,566
OPERATING EXPENSES:				
Personnel services	1,022	-	-	1,022
Depreciation	48	10	84	142
Repairs and maintenance	209	-	-	209
General administration	891	1,627	2,061	4,579
Other	35	-	-	35
Total operating expenses	2,205	1,637	2,145	5,987
Operating income (loss)	778	3,242	(441)	3,579
NONOPERATING REVENUES (EXPENSES):				
Interest income	2,535	2,340	313	5,188
Other	(16,632)	-	-	(16,632)
Total nonoperating revenues (expenses)	(14,097)	2,340	313	(11,444)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(13,319)	5,582	(128)	(7,865)
CAPITAL CONTRIBUTIONS	-	9,830	11,590	21,420
CHANGE IN NET ASSETS	(13,319)	15,412	11,462	13,555
NET ASSETS — Beginning of year	25,818	346,512	60,463	432,793
NET ASSETS — End of year	$ 12,499	$ 361,924	$ 71,925	$ 446,348

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from employees	$ 289,019	$ -	$ -	$ 289,019
Cash paid to suppliers	(1,147)	(150)	(1,395)	(2,692)
Cash paid to employees	(894)	(1,294)	(450)	(2,638)
Cash paid for premiums	(324,806)	-	-	(324,806)
Reserves returned by insurance carriers	141	-	-	141
Interest income from notes receivable	-	3,386	228	3,614
Administrative loan fees	-	1,582	1,290	2,872
Principal repayments on notes receivable	-	15,463	2,290	17,753
Disbursement of notes receivable proceeds	-	(24,379)	(11,074)	(35,453)
Net cash used in operating activities	(37,687)	(5,392)	(9,111)	(52,190)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Net advances to other funds	-	-	393	393
State capital contributions	-	995	1,671	2,666
Proceeds from federal operating grants	-	8,835	9,996	18,831
Net cash provided by noncapital financing activities	-	9,830	12,060	21,890
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITY--Acquisiton and construction of capital assets	(2,020)	-	(171)	(2,191)
CASH FLOWS FROM INVESTING ACTIVITIES--Interest from Investments	2,885	2,889	365	6,139
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,822)	7,327	3,143	(26,352)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year (as previously reported)	56,384	154,516	18,084	228,984
Adjustments (Note 15)	(2,816)	-	-	(2,816)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year (as restated)	53,568	154,516	18,084	226,168
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ 16,746	$ 161,843	$ 21,227	$ 199,816

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	$ 778	$ 3,242	$ (441)	$ 3,579
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	48	10	83	141
Reserves provided by operating activities	4,250	-	-	4,250
Premium reserves held by insurance companies	(24,000)	-	-	(24,000)
Decrease (increase) in assets:				
Receivables	(348)	(8,917)	(8,965)	(18,230)
Prepaid expenses	(2)	-	-	(2)
Increase (decrease) in liabilities:				
Vouchers and contracts payable	(49)	-	-	(49)
Other accrued liabilities	(18,364)	182	216	(17,966)
Accrued interest on loans receivable	-	91	(4)	87
Net cash used in operating activities	$ (37,687)	$ (5,392)	$ (9,111)	$ (52,190)

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2008
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 26,544	$ 83,940	$ 15,923	$ 126,407
RECEIVABLES - Taxes	-	-	10,238	10,238
DUE FROM INDIVIDUALS, BUSINESSES, AND COUNTIES	36,305	-	-	36,305
INVESTMENTS	-	29,769	44,408	74,177
TOTAL	$ 62,849	$ 113,709	$ 70,569	$ 247,127
LIABILITIES				
VOUCHERS PAYABLE	$ 62,849	$ 4,563	$ 6,494	$ 73,906
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	109,146	64,075	173,221
Total liabilities	$ 62,849	$ 113,709	$ 70,569	$ 247,127

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Amounts in thousands)

	Balance — June 30, 2007	Additions	Deductions	Balance — June 30, 2008
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 22,073	$ 6,788,067	$ (6,783,596)	$ 26,544
Due from individuals, businesses, and counties	30,286	6,794,086	(6,788,067)	36,305
Total assets	$ 52,359	$ 13,582,153	$ (13,571,663)	$ 62,849
Liabilities — Vouchers payable	$ 52,359	$ 62,849	$ (52,359)	$ 62,849
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 66,770	$ 3,535,794	$ (3,518,624)	$ 83,940
Investments	47,819	29,768	(47,818)	29,769
Total assets	$ 114,589	$ 3,565,562	$ (3,566,442)	$ 113,709
Liabilities:				
Vouchers payable	$ 841	$ 4,563	$ (841)	$ 4,563
Due to individuals, businesses, and counties	113,748	3,535,794	(3,540,396)	109,146
Total liabilities	$ 114,589	$ 3,540,357	$ (3,541,237)	$ 113,709
OTHER:				
Assets:				
Cash and cash equivalents	$ 16,021	$ 29,096	$ (29,194)	$ 15,923
Receivables	9,762	10,238	(9,762)	10,238
Investments	49,864	44,409	(49,865)	44,408
Total assets	$ 75,647	$ 83,743	$ (88,821)	$ 70,569
Liabilities:				
Vouchers payable	$ 129	$ 6,494	$ (129)	$ 6,494
Due to individuals, businesses, and counties	75,518	29,572	(41,015)	64,075
Total liabilities	$ 75,647	$ 36,066	$ (41,144)	$ 70,569
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 104,864	$ 10,352,957	$ (10,331,414)	$ 126,407
Receivables	9,762	10,238	(9,762)	10,238
Due from individuals, businesses, and counties	30,286	6,794,086	(6,788,067)	36,305
Investments	97,683	74,177	(97,683)	74,177
Total assets	$ 242,595	$ 17,231,458	$ (17,226,926)	$ 247,127
Liabilities:				
Vouchers payable	$ 53,329	$ 73,906	$ (53,329)	$ 73,906
Due to individuals, businesses, and counties	189,266	3,565,366	(3,581,411)	173,221
Total liabilities	$ 242,595	$ 3,639,272	$ (3,634,740)	$ 247,127

PART III: STATISTICAL SECTION

STATISTICAL SECTION

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

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

STATE OF HAWAII

Net Assets by Component

(Accrual Basis of Accounting)

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
Governmental Activities:					
Invested in capital assets, net of related debt	$ 3,987,244	$ 3,597,174	$ 3,709,504	$ 4,318,111	$ 4,654,693
Restricted	909,877	569,006	1,285,902	1,163,684	1,062,585
Unrestricted	121,480	1,578,412	1,267,569	858,907	204,363
Total Governmental Activities Net Assets	$ 5,018,601	$ 5,744,592	$ 6,262,975	$ 6,340,702	$ 5,921,641
Business-Type Activities:					
Invested in capital assets, net of related debt	$ 1,458,305	$ 1,278,608	$ 1,272,249	$ 1,186,703	$ 1,129,619
Restricted	730,061	655,055	217,478	189,093	169,816
Unrestricted	1,013,447	1,304,586	1,150,363	1,089,615	1,073,006
Total Business-Type Activities Net Assets	$ 3,201,813	$ 3,238,249	$ 2,640,090	$ 2,465,411	$ 2,372,441
Primary Government:					
Invested in capital assets, net of related debt	$ 5,445,549	$ 4,875,782	$ 4,981,753	$ 5,504,814	$ 5,784,312
Restricted	1,639,938	1,224,061	1,503,380	1,352,777	1,232,401
Unrestricted	1,134,927	2,882,998	2,417,932	1,948,522	1,277,369
Total Primary Government Net Assets	$ 8,220,414	$ 8,982,841	$ 8,903,065	$ 8,806,113	$ 8,294,082

Note: The net assets above do not include the effects of restatements

STATE OF HAWAII

Changes in Net Assets

(Accrual Basis of Accounting)

Last Five Fiscal Years

(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
Expenses:					
Governmental activities:					
General government	$ 548,439	$ 541,889	$ 455,008	$ 494,174	$ 427,820
Public safety	414,463	378,409	336,362	248,685	239,932
Highways	490,754	385,267	646,336	282,339	413,215
Conservation of natural resources	74,411	68,745	76,490	79,545	69,693
Health	895,413	833,669	690,265	561,155	520,433
Welfare	1,877,188	1,773,505	1,709,526	1,615,721	1,547,732
Lower education	2,385,056	2,288,641	2,151,891	1,758,596	1,795,482
Higher education	815,116	759,777	678,338	559,379	480,296
Other education	23,206	21,127	19,183	19,667	23,092
Culture and recreation	107,676	92,444	98,121	72,920	64,052
Urban redevelopment and housing	187,861	73,991	87,789	53,077	59,394
Economic development and assistance	157,421	148,164	215,578	214,842	214,206
Interest expense	140,032	118,708	172,673	169,738	179,357
Total governmental activities expenses	8,117,036	7,484,336	7,337,560	6,129,838	6,034,704
Business-type activities:					
Airports	354,554	329,942	292,086	273,949	273,546
Harbors	80,344	76,830	61,408	64,568	54,432
Unemployment compensation	159,098	112,411	105,786	112,329	176,135
Nonmajor proprietary fund	22,619	4,871	2,587	2,883	2,496
Total business-type activities expenses	616,615	524,054	461,867	453,729	506,609
Total Primary Government Expenses	$ 8,733,651	$ 8,008,390	$ 7,799,427	$ 6,583,567	$ 6,541,313
Program Revenues:					
Governmental activities					
Charges for services:					
General government	$ 203,336	$ 168,877	$ 136,113	$ 146,242	$ 116,645
Health	102,032	98,681	132,360	81,607	31,655
Other	101,390	110,942	131,143	127,819	135,159
Operating grants and contributions	1,887,298	1,820,886	1,726,217	1,667,492	1,687,923
Capital grants and contributions	130,643	75,697	279,323	143,183	40,001
Total governmental activities program revenues	2,424,699	2,275,083	2,405,156	2,166,343	2,011,383
Business-type activities:					
Charges for services:					
Airports	266,820	256,843	251,678	241,326	214,878
Unemployment	87,486	138,070	181,146	165,337	190,580
Others	95,013	93,650	86,360	77,501	77,536
Operating grants and contributions	—	—	—	—	—
Capital grants and contributions	81,967	148,597	81,145	35,048	24,253
Total business-type activities program revenues	531,286	637,160	600,329	519,212	507,247
Total Primary Government Program Revenues	$ 2,955,985	$ 2,912,243	$ 3,005,485	$ 2,685,555	$ 2,518,630
Net (Expense) Revenue:					
Governmental activities	$ (5,692,337)	$ (5,209,253)	$ (4,932,404)	$ (3,963,495)	$ (4,023,321)
Business-type activities	(85,329)	113,106	138,452	65,483	638
Total Primary Government Net Expenses	$ (5,777,666)	$ (5,096,147)	$ (4,793,952)	$ (3,898,012)	$ (4,022,683)
General Revenues and Other Changes in Net Assets:					
Governmental activities					
Taxes:					
General excise tax	$ 2,597,121	$ 2,659,339	$ 2,359,316	$ 2,145,603	$ 1,899,777
Net income tax – corporations and individuals	1,634,117	1,620,452	1,675,131	1,490,964	1,247,141
Public service companies tax	127,481	124,017	120,678	108,686	99,505
Transient accommodations tax	17,756	7,382	124,133	110,723	101,580
Tobacco and liquor taxes	134,886	131,813	134,216	128,982	120,637
Liquid fuel tax	90,123	87,179	84,719	82,733	81,401
Tax on premiums of insurance companies	96,332	96,385	89,778	84,822	79,477
Vehicle weight and registration tax	60,842	59,422	56,101	54,057	46,567
Rental motor/tour vehicle surcharge tax	49,196	49,479	45,885	41,886	41,414
Franchise tax	20,213	19,012	18,324	38,520	28,384
Others	26,149	27,523	46,850	34,191	41,903
Interest and investment income	112,024	102,295	99,546	64,236	—
Payment from the State	—	—	—	—	—
Other	106	—	—	(2,847)	(6,180)
Total governmental activities	4,966,346	4,984,298	4,854,677	4,382,556	3,781,606
Business-type activities:					
Interest and investment income	48,893	82,046	40,122	27,784	24,759
Other	—	—	—	(297)	(2,478)
Total business-type activities	48,893	82,046	40,122	27,487	22,281
Total Primary Government	$ 5,015,239	$ 5,066,344	$ 4,894,799	$ 4,410,043	$ 3,803,887
Changes in Net Assets:					
Governmental activities	$ (725,991)	$ (224,955)	$ (77,727)	$ 419,061	$ (241,715)
Business-type activities	(36,436)	195,152	178,574	92,970	21,919
Total Primary Government	$ (762,427)	$ (29,803)	$ 100,847	$ 512,031	$ (219,796)

STATE OF HAWAII

Fund Balances, Governmental Funds

(Modified Accrual Basis of Accounting)

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
General Fund:					
Reserved	$ 406,884	$ 414,899	$ 249,581	$ 219,800	$ 217,757
Unreserved	567,474	881,311	1,013,988	745,770	401,340
Total General Fund	$ 974,358	$ 1,296,210	$ 1,263,569	$ 965,570	$ 619,097
All Other Governmental Funds:					
Reserved	$ 2,344,961	$ 1,643,345	$ 1,851,194	$ 1,552,524	$ 1,512,966
Unreserved, reported in:					
Capital Projects Fund	(1,788,357)	(1,111,924)	(878,164)	(615,763)	(797,930)
Special Revenue Funds	410,265	556,963	637,664	637,585	589,280
Total All Other Governmental Funds	$ 966,869	$ 1,088,384	$ 1,610,694	$ 1,574,346	$ 1,304,316

Note: The net assets above do not include the effects of restatements

STATE OF HAWAII

Changes in Fund Balances, Governmental Funds

(Modified Accrual Basis of Accounting)

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Taxes:					
General excise tax	$ 2,597,121	$ 2,632,485	$ 2,359,316	$ 2,145,603	$ 1,900,077
Net income tax – corporations and individuals	1,637,265	1,618,570	1,664,331	1,484,664	1,254,341
Public service companies tax	127,481	124,017	120,678	108,686	99,505
Transient accommodations tax	17,756	7,382	124,133	110,723	101,580
Tobacco and liquor taxes	134,886	131,813	134,216	128,982	120,637
Liquid fuel tax	90,123	87,179	84,719	82,733	81,401
Tax on premiums of insurance companies	96,332	96,385	89,778	84,822	79,477
Vehicle weight and registration tax	60,842	59,422	56,101	54,057	46,567
Rental motor/tour vehicle surcharge tax	49,196	49,479	48,092	43,950	41,414
Franchise tax	20,213	2,000	18,324	38,520	—
Other	26,149	44,535	46,850	34,191	28,384
Total taxes	4,857,364	4,853,267	4,746,538	4,316,931	3,753,383
Interest and investment income	115,247	122,606	82,013	58,236	41,903
Charges for current services	341,371	318,235	343,424	298,670	229,142
Intergovernmental	1,807,376	1,727,895	1,601,005	1,574,899	1,528,280
Rentals	20,152	21,639	32,493	28,732	30,893
Fines, forfeitures, and penalties	32,618	28,488	26,827	27,482	30,453
Licenses and fees	31,731	30,837	29,364	27,297	25,643
Revenues from private sources	59,508	39,401	39,647	41,836	42,264
Other	131,291	127,444	128,283	101,387	108,287
Total revenues	7,396,658	7,269,812	7,029,594	6,475,470	5,790,248
Expenditures:					
Current:					
General government	537,541	458,236	493,301	508,154	450,975
Public safety	411,152	376,032	322,578	291,369	265,432
Highways	406,795	337,862	267,213	301,784	222,672
Conservation of natural resources	103,596	107,578	86,628	74,188	64,774
Health	863,914	832,333	685,679	564,807	518,667
Welfare	1,857,473	1,770,707	1,709,810	1,614,559	1,545,322
Lower education	2,201,901	2,305,280	1,984,129	1,798,208	1,758,424
Higher education	815,116	759,777	678,338	559,379	480,296
Other education	23,206	20,122	19,183	19,667	22,807
Culture and recreation	110,404	92,574	87,478	73,774	66,884
Urban redevelopment and housing	255,783	170,614	60,725	52,698	55,077
Economic development and assistance	149,075	147,146	215,559	214,377	215,133
Other	5,880	7,248	4,634	4,784	4,195
Debt service					
Principal	231,478	271,010	247,935	128,378	113,629
Interest and others	247,257	231,723	199,642	193,570	187,886
Total Expenditures	8,220,571	7,888,242	7,062,832	6,399,696	5,972,173
Excess (Deficiency) of Revenues Over Expenditures	(823,913)	(618,430)	(33,238)	75,774	(181,925)
Other Financing Sources (Uses):					
Proceeds from borrowing and refunding	445,687	395,303	367,585	1,491,445	690,009
Payments to escrow agent	(29,510)	—	—	(947,869)	(215,510)
Transfers in	803,456	796,195	499,655	495,098	351,822
Transfers out	(803,456)	(796,195)	(499,655)	(495,098)	(351,822)
Other	—	—	—	(2,847)	(15,757)
Total Other Financing Sources	416,177	395,303	367,585	540,729	458,742
Net Change in Fund Balances	$ (407,736)	$ (223,127)	$ 334,347	$ 616,503	$ 276,817
Debt service as a percentage of noncapital expenditures	6.2%	6.9%	7.3%	5.7%	5.7%

Note: The above amounts do not include the effects of restatements

STATE OF HAWAII

Personal Income by Industry

Last Ten Fiscal Years
(Amounts in millions)

	For the Fiscal Year Ended June 30,									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Farm Earnings	$ N/A	$ 222	$ 216	$ 218	$ 221	$ 217	$ 220	$ 215	$ 212	$ 252
Nonfarm Wage and Salary Workers:										
Goods-producing industries:										
Forestry, fishing related activities, and other	N/A	44	53	54	56	65	68	161	162	152
Mining	N/A	57	53	51	44	37	31	33	34	31
Construction	N/A	3,248	2,910	2,649	2,231	2,067	1,869	1,568	1,568	1,402
Manufacturing – durable and nondurable goods	N/A	1,053	978	944	887	753	745	887	902	871
Subtotal Goods-Producing Industries	N/A	4,402	3,994	3,698	3,218	2,922	2,713	2,649	2,666	2,456
Service-producing industries										
Transportation, communication, and utilities	N/A	1,955	1,860	1,779	1,631	1,474	1,416	2,210	2,109	1,977
Trade	N/A	3,668	3,505	3,335	3,151	2,983	2,809	3,757	3,807	3,732
Information	N/A	749	750	686	694	650	669	0	0	0
Finance, insurance, and real estate	N/A	2,375	2,375	2,307	2,155	1,957	1,884	2,160	2,320	2,092
Service	N/A	13,711	13,009	12,226	11,592	10,623	9,945	7,883	7,694	7,127
State and local government	N/A	4,979	4,713	4,421	4,101	3,862	3,664	3,266	3,078	3,157
Federal government	N/A	7,755	7,335	6,803	6,280	5,716	5,282	4,820	4,592	4,340
Subtotal Service-Producing Industries	N/A	35,192	33,547	31,557	29,604	27,265	25,669	24,096	23,600	22,425
Total Nonfarm Wage and Salary Workers	N/A	39,594	37,541	35,255	32,822	30,187	28,382	26,745	26,266	24,881
Other(1)	N/A	10,543	9,582	8,811	7,984	7,433	7,765	8,167	7,973	7,512
Total Personal Income	$ N/A	$ 50,359	$ 47,339	$ 44,284	$ 41,027	$ 37,837	$ 36,367	$ 35,127	$ 34,451	$ 32,645
Total direct income tax rate(2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

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

Source: State of Hawaii, Data Book 2007.

N/A Not available.

STATE OF HAWAII

Personal Income Tax Rates

Last Six Calendar Years

	Top Income Tax Rate is Applied to Taxable Income in Excess of					
Year	Top Rate	Single	Top Rate	Married Filing Jointly	Top Rate	Head of Household
2007	8.25% + $3,214	$ 48,000	8.25% + $6,427	$ 96,000	8.25% + $4,820	$ 72,000
2006	8.25% + $2,678	40,000	8.25% + $5,356	80,000	8.25% + $4,017	60,000
2005	8.25% + $2,678	40,000	8.25% + $5,356	80,000	8.25% + $4,017	60,000
2004	8.25% + $2,678	40,000	8.25% + $5,356	80,000	8.25% + $4,017	60,000
2003	8.25% + $2,678	40,000	8.25% + $5,356	80,000	8.25% + $4,017	60,000
2002	8.25% + $2,678	40,000	8.25% + $5,356	80,000	8.25% + $4,017	60,000

Source: State of Hawaii, Department of Taxation.

STATE OF HAWAII

Personal Income Tax Filers and Liability by Income Level

Calendar Years 2006 and 1999

2006

Income Level(1)	Number of Filers(2)	Percentage of Total		Personal Income Tax Liability	Percentage of Total
Under $5,000	36,968	7.0 %	$	975,091	0.1 %
$5,000 – $10,000	48,434	9.2 %		6,256,133	0.4 %
$10,000 – $20,000	87,084	16.5 %		40,332,199	2.6 %
$20,000 – $30,000	77,271	14.7 %		77,913,432	5.0 %
$30,000 – $40,000	62,144	11.8 %		95,268,983	6.1 %
$40,000 – $50,000	43,425	8.3 %		89,482,585	5.7 %
$50,000 – $75,000	72,305	13.7 %		209,998,273	13.5 %
$75,000 – $100,000	41,275	7.8 %		173,571,460	11.1 %
$100,000 and over	57,947	11.0 %		863,922,316	55.5 %
	526,853	100.0 %	$	1,557,720,472	100.0 %

1999

Income Level(1)	Number of Filers(2)	Percentage of Total		Personal Income Tax Liability	Percentage of Total
Under $5,000	44,672	9.6 %	$	1,336,390	0.1 %
$5,000 – $10,000	54,505	11.7 %		8,114,219	0.8 %
$10,000 – $20,000	88,968	19.0 %		46,173,613	4.7 %
$20,000 – $30,000	74,230	15.9 %		81,860,752	8.3 %
$30,000 – $40,000	50,509	10.8 %		84,056,955	8.5 %
$40,000 – $50,000	37,369	8.0 %		81,468,836	8.2 %
$50,000 – $75,000	59,469	12.7 %		182,083,159	18.3 %
$75,000 – $100,000	28,243	6.0 %		128,502,791	12.9 %
$100,000 and over	29,573	6.3 %		379,881,765	38.2 %
	467,538	100.0 %	$	993,478,480	100.0 %

(1) Income Level = Hawaii Adjusted Gross Income.
(2) Number of Filers = All resident returns and taxable nonresident returns filed.

Source: State of Hawaii, Department of Taxation, Tax Research & Planning Office

Note: Calendar year 2006 is the most recent year available.

STATE OF HAWAII

Taxable Sales by Industry

Last Five Fiscal Years
(Amounts in millions)

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
Taxable Sales by Activities:					
Retailing	$ 26,183	$ 25,509	$ 24,812	$ 22,578	$ 20,007
Services	11,073	11,205	10,314	8,780	7,729
Contracting	7,863	7,904	6,545	5,523	4,544
Hotel rentals	3,321	3,480	3,251	2,727	2,444
All other rentals	5,818	5,814	5,445	4,758	4,284
All other (4%)	5,238	5,606	5,245	4,385	3,764
Subtotal	59,496	59,518	55,612	48,751	42,772
Sugar processing	-	-	2	1	2
Pineapple canning	-	15	5	4	5
Producing	457	467	582	581	533
Manufacturing	761	818	720	693	651
Wholesaling	13,746	13,558	12,963	11,835	10,426
Use (1/2%)	7,215	7,742	7,125	6,067	6,020
Services (Intermediary)	649	718	563	377	327
Insurance solicitors	544	617	551	530	901
Subtotal	23,372	23,935	22,511	20,088	18,865
Total All Activities	$ 82,868	$ 83,453	$ 78,123	$ 68,839	$ 61,637

General excise and use tax is imposed on the gross income received by the business as follows:

- 4% of sales of tangible personal tangible property, services, contracting, theater amusement and broadcasting, commissions, transient accommodations rentals, other rentals, interest and other business activities;
- 0.5% of sales from wholesaling, manufacturing, producing, wholesale services, and imports for resale;
- 0.15% on insurance producer commissions.

Source: State of Hawaii, Department of Taxation.

Sales Tax Revenue Payers by Industry

Last Five Fiscal Years
(Amounts in thousands)

	2008		2007		2006		2005		2004	
	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total	Tax Liability	Percentage of Total
Retailing	$ 1,047,340	40.0 %	$ 969,783	37.9 %	$ 964,080	40.9 %	$ 890,566	41.7 %	$ 800,287	42.1 %
Services	442,909	17.0	413,415	16.2	390,131	16.6	339,775	15.9	309,166	16.3
Contracting	314,538	12.0	303,806	11.9	254,793	10.8	216,541	10.1	181,763	9.6
Theater, amusement, etc.	13,998	0.5	12,464	0.5	11,860	0.5	11,569	0.5	10,993	0.6
Interest	7,963	0.3	11,793	0.5	8,236	0.4	5,716	0.3	5,849	0.3
Commissions	42,500	1.6	46,258	1.8	49,364	2.1	43,743	2.0	39,420	2.1
Hotel rentals	132,841	5.1	125,598	4.9	119,571	5.1	105,749	4.9	97,764	5.1
All other rentals	232,718	8.9	207,855	8.1	198,264	8.4	179,788	8.4	171,375	9.0
Use (4%)	39,034	1.5	36,238	1.4	37,342	1.6	33,564	1.6	25,615	1.3
All other (4%)	106,040	4.0	99,176	3.9	88,562	3.8	75,918	3.6	68,682	3.6
Sugar processing	—	—	—	—	9	—	5	—	9	—
Pineapple canning	—	—	—	—	23	—	15	—	25	—
Producing	2,286	0.1	2,175	0.1	2,728	0.1	2,839	0.1	2,664	0.1
Manufacturing	3,804	0.1	3,450	0.1	3,372	0.1	3,323	0.2	3,257	0.2
Wholesaling	68,730	2.6	64,177	2.5	62,051	2.6	57,122	2.7	52,130	2.7
Use (1/2%)	36,073	1.4	37,943	1.5	33,924	1.4	29,702	1.4	30,102	1.6
Services (Intermediary)	3,242	0.1	2,802	0.1	2,751	0.1	1,746	0.1	1,633	0.1
Insurance solicitors	815	0.0	783	—	690	—	739	—	1,351	0.1
Unallocated collections	123,953	4.8	218,044	8.6	127,564	5.5	138,183	6.5	98,292	5.2
Total	$ 2,618,784	100.0 %	$ 2,555,760	100.0 %	$ 2,355,315	100.0 %	$ 2,136,603	100.0 %	$ 1,900,377	100.0 %

Source: State of Hawaii, Department of Taxation

Note: Information for number of filers is not available.

Ratios of Outstanding Debt by Type

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
Governmental Activities:					
General obligation bonds	$ 4,408,572	$ 4,079,714	$ 4,322,964	$ 4,256,633	$ 3,954,192
Revenue bonds	268,425	283,310	306,255	319,305	276,680
Capital leases	75,480	79,090	58,035	61,340	64,485
Total Governmental Activities	4,752,477	4,442,114	4,687,254	4,637,278	4,295,357
Business-Type Activities:					
General obligation bonds	38,357	37	137	167	196
Revenue bonds	861,141	939,349	883,823	927,695	1,017,445
Total Business-Type Activities	899,498	939,386	883,960	927,862	1,017,641
Total Primary Government	$ 5,651,975	$ 5,381,500	$ 5,571,214	$ 5,565,140	$ 5,312,998
Hawaii Total Personal Income	$ 52,760,000	$ 50,369,000	$ 47,340,000	$ 43,953,000	$ 41,178,000
Debt as a Percentage of Personal Income	10.7 %	10.7 %	11.8 %	12.7 %	12.9 %
Hawaii Population	1,292	1,299	1,285	1,273	1,262
Amount of Debt Per Capita	$ 4,375	$ 4,143	$ 4,336	$ 4,372	$ 4,210

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

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

STATE OF HAWAII

Ratios of Net General Bonded Debt Outstanding

Last Five Fiscal Years
(Amounts in thousands except ratio data)

Fiscal Year	Taxable Sales (1)	Population (2)	General Obligation Bonded Debt (3)(4)	Less Debt Service Monies Available (3)	Net General Obligation Bonded Debt	Percentage of Taxable Sales	Net General Obligation Bonded Debt Per Capita
2008	$ 82,868,000	1,292	$ 4,408,572	$ 22,002	$ 4,386,570	5.3 %	$ 3,395
2007	78,290,000	1,299	4,079,714	21,704	4,058,010	5.2	3,124
2006	73,772,000	1,285	4,322,964	7,226	4,315,738	5.9	3,359
2005	67,017,000	1,273	4,256,633	184	4,256,449	6.4	3,344
2004	61,637,000	1,262	3,954,192	72	3,954,120	6.4	3,133

(1) Source: State of Hawaii, Department of Taxation.
(2) Source: State of Hawaii, Department of Business, Economic Development and Tourism.
(3) Source: State of Hawaii, Department of Accounting and General Services, Accounting Division.
(4) Excludes Enterprise Funds and Component Unit – UH general obligation bonds.

STATE OF HAWAII

Legal Debt Margin Information

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
Average General Fund revenues of the three preceding fiscal years	$ 5,083,126	$ 4,832,700	$ 4,423,191	$ 4,043,868	$ 3,455,569
Constitutional debt limit percentage	18.50 %	18.50 %	18.50 %	18.50 %	18.50 %
Constitutional debt limit for total principal and interest payable in a current or future year	940,378	894,050	818,290	748,116	639,280
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2009)	(540,348)	(550,696)	(533,810)	(516,641)	(527,561)
Legal debt margin	$ 400,030	$ 343,354	$ 284,480	$ 231,475	$ 111,719
Legal debt margin as a percentage of the debt limit	42.5 %	38.4 %	34.8 %	30.9 %	17.5 %

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

STATE OF HAWAII

Pledge Revenue Coverage

Last Five Fiscal Years
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
Revenue Bonds – Airports					
Gross revenue(1)	$ 307,418	$ 286,838	$ 267,927	$ 245,464	$ 234,287
Less: Operating expenses(2)	239,667	211,119	171,990	150,332	151,717
Net available revenue	67,751	75,719	95,937	95,132	82,570
Debt service requirements:					
Principal(3)	21,140	32,250	30,565	25,250	22,365
Interest(4)	26,076	10,868	11,557	21,516	18,814
Total Debt Service	47,216	43,118	42,122	46,766	41,179
Coverage(5)	143 %	176 %	228 %	203 %	201 %
Revenue Bonds – Harbors:					
Gross revenue(6)	96,256	$ 97,414	$ 89,402	$ 79,319	$ 78,433
Less: Operating expenses(7)	49,229	42,967	35,140	36,053	26,809
Net available revenue	47,027	54,447	54,262	43,266	51,624
Debt service requirements	24,290	25,364	19,265	19,224	21,317
Coverage(8)	194 %	215 %	282 %	225 %	242 %
Revenue Bonds – Highways:					
Revenue	213,378	$ 210,989	$ 204,287	$ 190,438	$ 185,841
Less: Operating expenses	184,097	172,167	172,633	121,776	119,377
Net available revenue	29,281	38,822	31,654	68,662	66,464
Debt service:					
Principal	15,495	14,885	14,295	11,800	11,385
Interest	12,930	12,988	14,096	13,043	13,150
Total Debt Service	28,425	27,873	28,391	24,843	24,535
Coverage(9)	103 %	139 %	111 %	276 %	271 %
Revenue Bonds – Department of Hawaiian Home Lands:					
Revenue	$ -	$ -	$ 10,289	$ 8,611	$ 7,852
Less: Operating expenses	-	-	6,321	5,601	4,977
Net available revenue	-	-	3,968	3,010	2,875
Debt service:					
Principal	-	-	1,250	1,200	1,155
Interest	-	-	391	440	487
Total Debt Service	-	-	1,641	1,640	1,642
Coverage(10)	-	-	242 %	184 %	175 %

(1) Total operating revenues plus interest income and federal operating grants, exclusive of interest earned on investment in financing leases.

(2) Total operating expenses other than depreciation less (plus) excess of actual disbursements over (under) required reserve for major maintenance, renewal, and replacement plus amounts required to be paid into the General Fund for general obligation bond requirements.

(3) On January 5, 2005, Airports disbursed $69,300 for the Airport Revenue Fund to the paying agent to redeem the outstanding balance of the Airports System Revenue Bonds, Refunding Series of 2003 in its entirety

(4) For purposes of calculating the debt service requirement, interest payments for airports system revenue bonds exclude the amortization of the deferred loss on refunding and orginal issue discount and premium, which are reported as interest expense for financial statement reporting purposes.

For fiscal 2008, Airports deposited $10,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in th current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2008 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.

For fiscal 2005, Airports deposted $20,000 of available funds into the Airports Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 2005 to the interest account as required in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

(5) Airports revenue bond indentures require a minimum debt service coverage percentage of 125%.

(6) Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.

(7) Total operating expenses other than depreciation, less State of Hawaii surcharge for central service expenses.

(8) Harbors revenue bond indentures require a minimum debt service coverage percentage of 125%.

(9) Highways revenue bond indentures require a minimum debt service coverage percentage of 100% during a routine year, 200% during the year bonds are issued, and 135% is required for any year Highways' funds are transferred out (i.e., General Fund).

(10) DHHL revenue bond indentures require a minimum debt service coverage percentage of 125%.

STATE OF HAWAII

Demographic and Economic Statistics

Last Ten Fiscal Years

	For the Fiscal Year Ended June 30,									
Source	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Population (in thousands):										
State	1,292	1,283	1,279	1,273	1,262	1,249	1,241	1,225	1,212	1,210
Percentage change	0.70 %	0.31 %	0.47 %	0.86 %	1.03 %	0.64 %	1.29 %	1.06 %	0.17 %	(0.41)%
National	N/A	301,621	298,755	295,896	293,192	290,448	287,888	285,112	282,194	N/A
Percentage change	N/A	0.95 %	0.96 %	0.91 %	0.94 %	0.88 %	0.96 %	1.02%	N/A	N/A
Total Personal Income (in millions):										
State	N/A	50,359	47,339	44,283	41,027	37,837	36,367	35,127	34,451	32,645
Percentage change	N/A	6.00 %	6.45 %	7.35 %	7.78 %	3.88 %	3.41 %	1.92 %	5.24 %	2.72 %
National	N/A	11,645,882	10,968,393	10,284,356	9,711,363	9,150,320	8,872,871	8,716,992	8,422,074	7,796,137
Percentage change	N/A	5.82 %	6.24 %	5.57 %	5.78 %	3.03 %	1.76 %	3.38 %	7.43 %	4.88 %
Per Capita Personal Income (in thousands):										
State	N/A	39,239	37,023	34,935	32,713	30,506	29,599	28,826	28,435	26,973
Percentage change	N/A	5.65 %	5.64 %	6.36 %	6.75 %	2.97 %	2.61 %	1.36 %	5.14 %	3.12 %
National	N/A	38,611	36,714	34,757	33,123	31,504	30,821	30,574	29,845	27,939
Percentage change	N/A	4.91 %	5.33 %	4.70 %	4.89 %	2.17 %	0.80 %	2.38 %	6.39 %	3.78 %
Resident Civilian Labor Force and Employment:										
Civilian labor force employed	636,738	631,908	631,613	618,017	602,446	592,471	584,350	589,221	584,858	576,321
Unemployed	23,263	17,175	15,983	17,371	20,088	23,854	24,588	26,038	24,154	30,350
Unemployment rate	3.50 %	2.70 %	2.50 %	2.70 %	3.20 %	3.10 %	4.00 %	4.20 %	4.00 %	5.00 %

Source: State of Hawaii, Data Book 2007.
U.S. Census Bureau and State of Hawaii, Department of Labor and Industrial Relations.

Notes: Population estimates have been restated to most current State of Hawaii, Data Book 2007.
National population for 2007 obtained from U.S. Census Bureau.
Unemployment data from 1997 to 2008 reflects new modeling approach (redesign) and reestimation.
2003-2007 have been benchmarked. Reflects revised population controls and model reestimation through 2008.

N/A Not available.

STATE OF HAWAII

Ten Largest Private Sector Employers

Last Three Fiscal Years

	2008		2007		2006	
Employer	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment
Alexander & Baldwin, Inc.	2,255	0.4 %	N/A	N/A	N/A	N/A
Aloha Airgroup, Inc.	3,399	0.5 %	3,465	0.5 %	3,375	0.5 %
Hawaii Pacific Health	5,200	0.8 %	5,200	0.8 %	5,500	0.9 %
Hawaiian Airlines	3,415	0.5 %	3,587	0.6 %	3,300	0.5 %
Hawaiian Electric Industries, Inc.	3,519	0.6 %	3,447	0.5 %	3,383	0.5 %
Hilton Waikoloa Village	3,099	0.5 %	N/A	N/A	N/A	N/A
Kaiser Permanente Hawaii	4,403	0.7 %	4,017	0.6 %	3,969	0.6 %
Kyo-ya Co., Ltd.	3,639	0.6 %	3,764	0.6 %	3,807	0.6 %
The Queen's Health System	4,903	0.8 %	4,834	0.8 %	4,351	0.7 %
Starwood Hotels and Resort Hawaii	2,700	0.4 %	2,382	0.4 %	2,377	0.4 %

Source: Hawaii Business, August 2006, August 2007, and August 2008.
State of Hawaii Department of Business, Economic Development and Tourism.
State Department of Labor and Industrial Relations.

Notes: Total Annual Average Employment for Hawaii for fiscal years 2008, 2007 and 2006 totaled 632,900; 634,200; and 631,750, respectively.

Listed alphabetically.

Aloha Airgroup, Inc. filed for bankruptcy in April 2008

STATE OF HAWAII

State Employees by Function

Last Five Fiscal Years

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
General government	4,720	4,523	4,638	4,698	4,713
Public safety	3,011	2,889	2,881	2,828	2,882
Transportation	2,229	2,222	2,287	2,266	2,325
Conservation of natural resources	1,126	1,041	1,040	976	974
Health	6,730	6,909	6,906	6,697	6,965
Welfare	2,312	2,242	2,386	2,400	2,373
Lower education	22,620	23,521	22,771	22,104	22,201
Higher education	8,705	8,619	8,375	8,108	8,137
Other education	518	509	523	505	490
Urban redevelopment and housing	150	147	136	131	127
Economic development and assistance	865	850	864	912	969
Total	52,986	53,472	52,807	51,625	52,156

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

STATE OF HAWAII

Operating Indicators by Function

Last Five Fiscal Years

	For the Fiscal Year Ended June 30,				
	2008	**2007**	**2006**	**2005**	**2004**
General Government					
Tax Commission:					
Total individual net income returns	678,305	667,297	602,375	595,035	579,252
Number of individual net income returns filed electronically	271,212	231,154	196,959	156,199	135,922
Percentage of individual net income returns transmitted electronically	39.98 %	34.64 %	32.70 %	27.63 %	24.06 %
Public Safety					
Inmate population:					
In-state facilities	6,014	6,045	6,251	6,092	5,958
Out-of-state facilities	2,014	2,009	1,844	1,730	1,694
Total	8,028	8,054	8,095	7,822	7,652
Conservation and Natural Resources					
Department of Parks and Recreation:					
Number of state-owned parks	53	53	53	N/A	N/A
Health					
Environmental health:					
Air quality sites monitored	14	16	16	N/A	N/A
Water quality stations	N/A	363	363	N/A	N/A
Mental health:					
Adult consumers served	N/A	13,545	12,245	10,136	7,543
Individuals with developmental disabilities served	N/A	3,360	2,300	3,302	2,965
Revolving loan funds	90	73	65	53	49
Welfare					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF):					
Families per month average	N/A	N/A	9,837	10,642	12,915
Average time on assistance	N/A	N/A	15.0	15.0	15.4
Monthly benefits paid for the month of July (in millions)	N/A	N/A	5.09	5.96	6.26
General assistance:					
Individuals per month	N/A	N/A	3,917	3,994	4,112
Food stamp program:					
Number of persons participating	N/A	N/A	88,967	95,032	99,126
Number of households participating	N/A	N/A	46,285	47,795	48,569
Benefits issued (in millions)	N/A	N/A	$ 12.49	$ 12.98	$ 12.77
Medicaid programs:					
MedQuest enrollment (in thousands)	211,105	202,126	203,345	200,534	190,381
Lower Education					
Number of schools	N/A	286	285	285	284
Number of students	N/A	179,234	181,406	181,897	182,434
Staff:					
Classroom teachers	N/A	11,270.3	11,226.0	11,146.0	11,128.5
Librarians	N/A	271.5	292.0	291.0	282.0
Counselors	N/A	669.5	671.0	657.0	647.5
Administrators	N/A	745.5	705.5	701.4	692.4
Other support staff	N/A	8,102.6	8,164.0	7,735.3	8,361.4
Total	N/A	21,059.4	21,058.5	20,530.7	21,111.8

STATE OF HAWAII

Operating Indicators by Function (Cont'd)

Last Five Fiscal Years

	For the Fiscal Year Ended June 30,				
	2008	2007	2006	2005	2004
Higher Education					
Enrollment:					
Number of credit students	53,526	50,454	49,990	50,157	50,569
Degrees earned:					
Certificates	N/A	315	340	324	300
Associate degrees	N/A	2,393	2,295	2,346	2,296
Advanced professional certificates	N/A	2	2	1	—
Bachelor's degrees	N/A	3,586	3,639	3,294	3,273
Professional diploma	N/A	103	139	119	144
Master's degrees	N/A	1,116	1,181	1,143	978
Doctor's degrees	N/A	144	147	149	109
First professional	N/A	176	174	161	146
Other	N/A	—	—	—	—
Total	N/A	7,835	7,917	7,537	7,246
Degrees by campus/college:					
University of Hawaii at Manoa	N/A	4,313	4,401	4,175	3,859
University of Hawaii at Hilo	N/A	592	614	497	579
University of Hawaii at West Oahu	N/A	217	265	194	212
Hawaii Community College	N/A	311	339	315	317
Honolulu Community College	N/A	537	515	561	570
Kapiolani Community College	N/A	757	641	731	649
Kauai Community College	N/A	135	114	165	89
Leeward Community College	N/A	514	533	482	534
Maui Community College	N/A	336	360	306	308
Windward Community College	N/A	123	135	111	129
Total	N/A	7,835	7,917	7,537	7,246

N/A Not available

Notes: Migration to new registration system at the UH Community Colleges in Fall 2006 and at UH at Manoa, UH at Hilo, and UH at West Oahu in Fall 2006.

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

Capital Assets Statistics by Function

Last Three Fiscal Years

	For the Fiscal Year Ended June 30, 2008	2007	2006
General Government			
Department of Accounting and General Services:			
Buildings	72	71	10
Vehicles	571	553	581
Department of the Attorney General:			
Buildings	5	5	5
Vehicles	2	1	1
The Judiciary:			
Buildings	17	17	17
Vehicles	13	14	15
Other Departments:			
Buildings	23	23	21
Vehicles	5	6	6
Public Safety			
Department of Public Safety:			
Buildings and Correction Facilities	71	71	71
Vehicles	260	245	241
Department of Defense:			
Buildings	96	100	98
Vehicles	79	84	77
Department of Commerce and Consumer Affairs:			
Buildings	4	4	4
Highways			
Department of Transportation:			
Highway lane miles	N/A	2466	2,433
Highway bridges	N/A	752	752
Buildings	29	26	26
Vehicles	949	932	918
Conservation of Natural Resources			
Department of Land and Natural Resources:			
Land area (in square miles)	6,423	6,423	6,423
Buildings	74	76	75
Vehicles	706	681	597
Department of Agriculture:			
Buildings	32	31	27
Vehicles	184	166	167

	For the Fiscal Year Ended June 30, 2008	2007	2006
Health			
Department of Health:			
Buildings	71	75	69
Vehicles	295	292	283
Welfare			
Department of Human Services:			
Buildings	18	18	18
Vehicles	128	126	134
Lower Education			
Department of Education:			
Buildings	8	8	8
Other Education			
Department of Education - Libraries:			
Buildings	34	34	34
Vehicles	30	31	33
Urban Redevelopment and Housing			
Department of Hawaiian Home Lands:			
Buildings	16	18	15
Vehicles	33	30	29
Economic Development and Assistance			
Department of Business, Economic Development and Tourism:			
Buildings	32	27	30
Vehicles	39	37	36
Department of Labor and Industrial Relations:			
Buildings	8	8	8
Vehicles	2	2	2

Source: Buildings and Vehicles - State of Hawaii, Department of Accounting and General Services.
Lane Miles and Bridges - State of Hawaii, Department of Transportation.
Land Area - State of Hawaii, Data Book 2007.