

# STATE OF HAWAII

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017



**RODERICK K. BECKER**  
COMPTROLLER

# STATE OF HAWAII

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR  
ENDED JUNE 30, 2017



**RODERICK K.  
BECKER**  
COMPTROLLER

Prepared by Accounting Division  
Department of Accounting and General Services

Independent Audit Contracted and Administered by  
Office of the State Auditor

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## **PART I: INTRODUCTORY SECTION**

**State of Hawaii**  
**Principal Officials for Finance-Related Functions**  
**June 30, 2017**

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**Roderick K. Becker**  
**Comptroller**



**Audrey Hidano**  
**Deputy Comptroller**

**Governor**  
**Director of Finance**  
**Director of Taxation**  
**Comptroller**  
**Deputy Comptroller**

**David Y. Ige**  
**Wesley K. Machida**  
**Linda Chu Takayama**  
**Roderick K. Becker**  
**Audrey Hidano**

**Notes:**

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

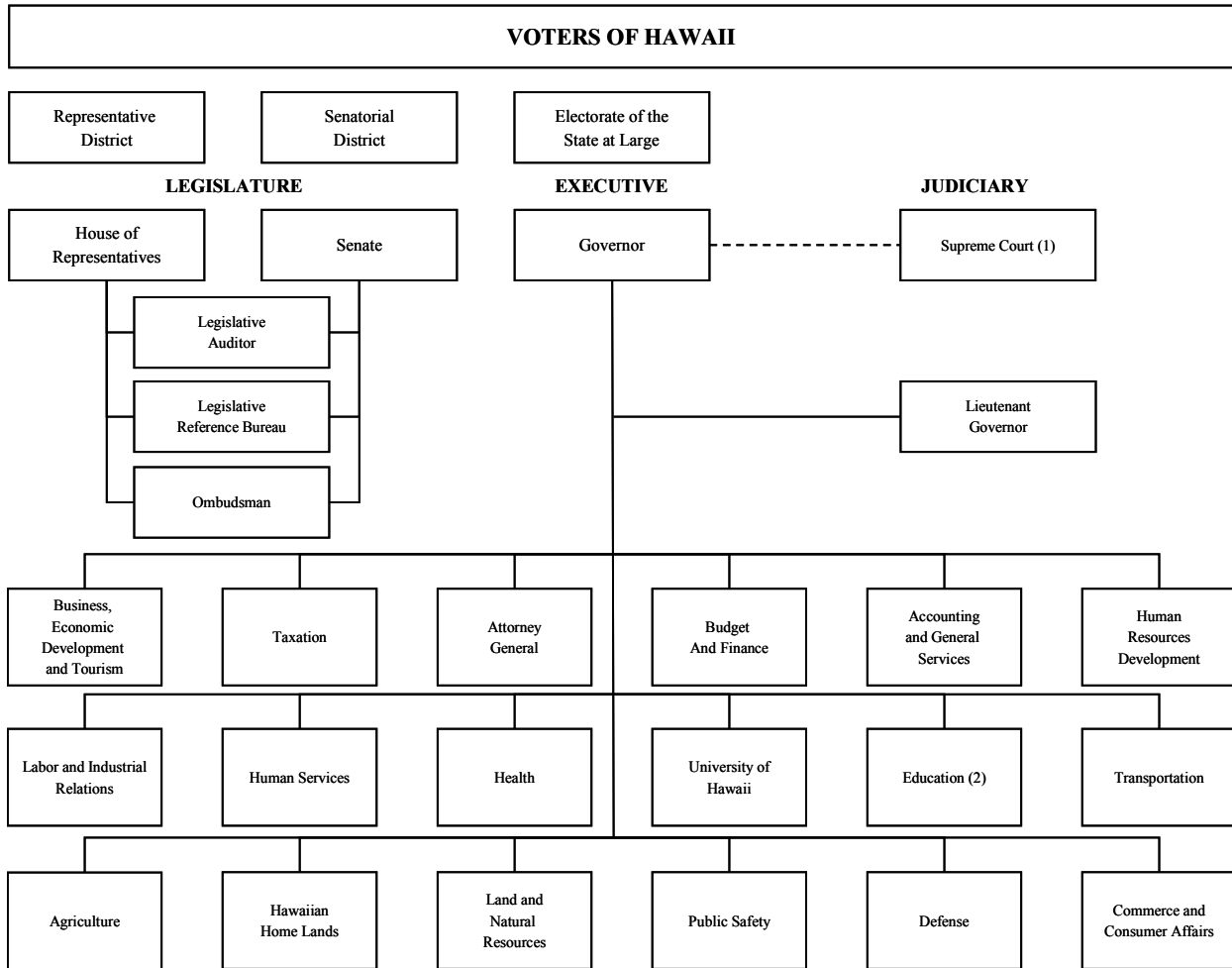
The Comptroller is also department head of the Department of Accounting and General Services.

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, 2017**

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

DAVID Y. IGE  
GOVERNOR



RODERICK K. BECKER  
Comptroller

AUDREY HIDANO  
Deputy Comptroller

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

December 28, 2017

To the Honorable Governor of the State of Hawaii  
To the Honorable Members of the Twenty-Ninth State  
Legislature of the State of Hawaii

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is our privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (the State) for the fiscal year ended June 30, 2017. The State's Department of Accounting and General Services has prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. We 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.

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 management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A is included in Part II of this report.

**THE 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***

During the third quarter of 2017 Hawaii's economic indicators were mostly positive. Visitor arrivals and expenditures, State general fund tax revenues, wage and salary jobs, personal income (through second quarter), and construction in progress expenditures all increased. Private building authorizations and government contracts awarded decreased compared to third quarter 2016.

#### ***Labor***

Since the fourth quarter of 2010, Hawaii's jobs increased for the 28th consecutive quarter. During the first nine months of 2017, Hawaii's total civilian employment averaged 674,250 persons, an increase of 11,700 persons or 1.8% over the same period in 2016. The number of wage and salary jobs was up 7,000 to 657,600 for an increase of 1.1%. Job increases were most notable in food services and drinking places (2,500), retail trade (2,300), and accommodation (900). A few sectors experienced declines including state government (600), wholesale trade (500), and natural resources, mining, and construction (500). Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 2.7% for the first nine months of 2017, compared to 3.1% for the same period in 2016.

#### ***Taxes***

The State General Fund tax revenues increased \$244.0 million, or 5.2%, during the first nine months of 2017 compared to the same period in 2016. Among its components, net individual income tax collections increased \$113.2 million or 7.0%, general excise and use tax (GET) collections increased \$133.4 million or 5.5%, and transient accommodations tax (TAT) collections were up \$9.4 million or 2.5%. Net corporate income tax revenues decreased \$4.4 million or 8.3%.

#### ***Personal Income***

Total nominal personal income, not adjusted for inflation, increased \$4.2 billion, or 2.9% in the first half of 2017 compared to the same period in 2016. Among its components, the fastest growth was seen in wages and salaries which increased \$2.0 billion or 2.7%, dividends, interest, and rent which increased \$0.9 billion or 3.0%, and personal current transfer receipts which increased \$0.8 billion or 3.7%. Contributions for government social insurance, which are subtracted from personal income, increased by 3.6%.

#### ***Prices***

Honolulu's consumer price index (CPI) increased 2.5% for the first half of 2017 compared to the same period in 2016, higher than the 2.2% United States (U.S.) average CPI-U increase. The Honolulu increase was primarily due to increases in apparel (5.8%), housing (4.1%), transportation (2.9%), and medical care (1.5%). Prices also increased for other goods and services (1.3%), food and beverages (1.0%), and recreation (1.0%). The price decreased for education and communication (3.6%).

## **Recent Developments in Hawaii's Major Industries**

### ***Visitor Industry***

In the first nine months of 2017, total visitor arrivals by air increased 309,000 or 4.7% compared to the same period of 2016. Domestic arrivals (visitors on flights originating inside of the U.S.) increased 4.2% while international arrivals increased 5.7%. Total visitor days (visitor arrivals multiplied by average length of stay) increased 4.9% in the first nine months of 2017 compared to the same period of 2016 and total visitor spending increased \$824.5 million or 7.0% over the same period. Statewide hotel occupancy rate averaged 81.2% in the first three months of 2017, 0.4% higher than the average rate during the same period of 2016.

### ***Construction***

Hawaii's construction industry has been one of the steady contributors to job growth over the past few years. However, in the first nine months of 2017, the construction sector lost 500 jobs or 1.4% from the same period of 2016. Before the recession, specifically the period from 2002 to 2007, construction job growth averaged 8.0% per year. The strength of the current construction job market is a sharp contrast to the recession period. From the second quarter of 2008 until the second quarter of 2011, construction job growth was negative.

## **Outlook for Hawaii's Economy**

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy is continued positive growth for the rest of 2017 and into 2018. Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. The November 2017 Blue Chip Economic Consensus Forecasts expects real GDP growth in 2018 to increase 2.5% for the U.S. and 1.2% for Japan.

For 2018, the growth rate of visitor arrivals, visitor days and visitor expenditures are expected to be 2.3%, 2.4% and 3.9%, respectively.

DBEDT projects total non-agricultural wage and salary jobs to increase 0.9% in 2018. Real Personal Income is expected to increase 1.5% in 2018 with real GDP projected to increase 1.5% in 2018.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 2.3% in 2018. The State GDP deflator is forecast to grow 1.8% in 2018.

## **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. We 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 2015 (Act 119, SLH 2015), as amended by the Supplemental Appropriations Act of 2016 (Act 124, SLH 2016), 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. 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.

### **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. Of the 14 collective bargaining units, 13 include State employees. Units 2, 3, 4, 8, 9, 11, and 13 have collective bargaining agreements in effect through June 30, 2019. Units 1, 5, 6, 7, and 10 have collective bargaining agreements in effect through June 30, 2021. The Unit 14 contract expired June 30, 2017. An arbitration hearing is scheduled for January 2018 with the arbitration decision expected prior to the end of the 2018 legislative session.

### **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, 2017. The independent auditors' report has been included in Part II of this report.

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGEMENTS

We extend our 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 we believe will serve as a helpful source of information for anyone having an interest in the financial operations of the State.

Respectfully submitted,



RODERICK K. BECKER  
Comptroller, State of Hawaii



Government Finance Officers Association

**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, 2016**

*Christopher P. Morill*

Executive Director/CEO

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## **PART II: FINANCIAL SECTION**

## Report of Independent Auditors

The Auditor  
State of Hawaii

### Report on the Financial Statements

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 (the State) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements (pages 30–116) as listed in the accompanying table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these 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 Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund and the Drinking Water Treatment Revolving Loan Fund, which are nonmajor enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, an agency of the State; and the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation which are discretely presented component units, which represent the following percentages of total assets and revenues and additions for the indicated opinion units.

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues/Additions
Business-Type Activities	92%	82%
Aggregate Discretely Presented Component Units	26%	36%
Fiduciary Funds	81%	8%

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 Hawaii Employer-Union Health Benefits Trust Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, effective July 1, 2016, the State of Hawaii adopted new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 14–27), budgetary comparison information (pages 120–123 and 134–140), Schedule of the Proportionate Share of the Net Pension Liability (page 124), Schedule of Contributions (page 125), and Schedules of Funding Progress (page 126) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic

financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements (pages 130–133 and 141–145), introductory section (pages 1–8) and statistical section (pages 148–181) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of the State of Hawaii's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2017, on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Hawaii's internal control over financial reporting and compliance.

*Accuity LLP*

Honolulu, Hawaii  
December 28, 2017

# State of Hawaii

## Management's Discussion and Analysis (Unaudited)

### June 30, 2017

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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, 2017. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3–7 of this report.

#### Financial Highlights

##### Implementation of GASB Statement No. 82

During fiscal year 2017, the State implemented GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*.

The adoption of Statement No. 82 has no impact on the State's Governmental Fund financial statements. However, adoption has resulted in the restatement of the State's fiscal year 2016 Government-Wide financial statements to reflect the reporting of member contributions in accordance with Statement No. 82.

Net position as of July 1, 2016 was decreased by \$98.3 million to \$1.3 billion reflecting the retrospective effect of adoption.

##### Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2017 by \$1.1 billion (net position). Unrestricted net position, which may be used to meet the State's ongoing obligations to citizens and creditors, was a negative \$6.9 billion, a decrease of \$722.3 million from the previous year. Net position of governmental activities and business-type activities decreased by \$537.3 million and increased by \$238.3 million, respectively, due to implementation of Statement No. 82, in addition to current year activity. The combined decrease to the State was \$299.0 million from the prior fiscal year.

##### Fund Highlights

At June 30, 2017, the State's Governmental Funds reported combined ending fund balances of \$3.5 billion, an increase of \$435.8 million from the prior fiscal year. Of this amount, \$1.7 billion, or 48.7%, of total fund balances was in the General Fund, and the remaining \$1.8 billion represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net fund position of \$4.5 billion at June 30, 2017, an increase of \$239.0 million during the fiscal year.

##### Liabilities

The State's liabilities increased during the current year to \$22.9 billion, an increase of \$3.3 billion. During fiscal 2017, the State issued General Obligation Refunding bonds in the amount of \$616.8 million to advance refund \$629.8 million of previously issued outstanding General Obligation bonds for financing capital projects. In addition, the State issued \$950.0 million in General Obligation bonds and \$70.0 million in taxable General Obligation bonds.

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting By Employers For Postemployment Benefits Other Than Pensions*, the State's liability for postemployment benefits other than pension increased to \$3.9 billion, an increase of \$67.9 million for the fiscal year ended June 30, 2017.

#### 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 supplementary information required by GASB and other supplementary information in addition to the basic financial statements themselves.

# State of Hawaii

## Management's Discussion and Analysis (Unaudited)

### June 30, 2017

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#### **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 position presents information on all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 30–32 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.

**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2017**

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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 34–37 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 38–42 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 43–44 of this report.

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***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 52–116 of this report.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report presents a section of required supplementary information (RSI) other than management's discussion and analysis, which contains budget-to-actual schedules for the State's General and Med-Quest Special Revenue Funds as well as accompanying notes. This section also includes a Schedule of the Proportionate Share of the Net Pension Liability, Schedule of Contributions, and Schedules of Funding Progress.

**Other Supplementary Information**

The combining financial statements referred to earlier are presented in the supplementary information immediately following the RSI other than management's discussion and analysis. These combining statements provide details about the nonmajor Governmental, Proprietary and Fiduciary Funds. The total columns of these combining financial statements carry to the applicable Fund financial statements.

The statistical section containing information regarding financial trends, revenue capacity and debt capacity, as well as demographic, economic and operating information follows immediately after the supplementary information.

**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.



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Net position is a useful indicator of a government's financial position. For the State, total assets exceed liabilities by \$1.1 billion as of June 30, 2017, and net position decreased \$299.0 million, or 21.9% from June 30, 2016 balances as previously reported. The net position of the governmental activities decreased by \$537.3 million, or 18.7%, and business-type activities had an increase of \$238.3 million, or 5.6%. In addition to the fiscal year 2017 activity, net position was affected by the retrospective implementation of Statement No. 82. The following table was derived from the Government-Wide Statement of Net Position.

**Summary Schedule of Net Position**  
**June 30, 2017 and 2016**  
**(Amounts in thousands)**

	Governmental Activities		Primary Government		Total	
			Business-Type Activities			
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current and other assets	\$ 5,207,215	\$ 4,666,608	\$ 3,300,133	\$ 3,234,751	\$ 8,507,348	\$ 7,901,359
Capital assets, net	9,592,218	9,346,839	3,460,684	3,170,276	13,052,902	12,517,115
Total assets	\$ 14,799,433	\$ 14,013,447	\$ 6,760,817	\$ 6,405,027	\$ 21,560,250	\$ 20,418,474
<b>Deferred outflows of resources</b>						
Deferred loss on refunding	\$ 235,855	\$ 186,753	\$ 5,693	\$ 6,471	\$ 241,548	\$ 193,224
Deferred outflows on net pension liability	2,160,068	602,822	75,708	23,390	2,235,776	626,212
Total deferred outflows of resources	\$ 2,395,923	\$ 789,575	\$ 81,401	\$ 29,861	\$ 2,477,324	\$ 819,436
<b>Liabilities</b>						
Long-term liabilities	\$ 19,040,552	\$ 16,018,736	\$ 2,104,167	\$ 1,955,834	\$ 21,144,719	\$ 17,974,570
Other liabilities	1,452,779	1,370,901	260,401	234,170	1,713,180	1,605,071
Total liabilities	\$ 20,493,331	\$ 17,389,637	\$ 2,364,568	\$ 2,190,004	\$ 22,857,899	\$ 19,579,641
<b>Deferred inflows of resources</b>						
Deferred inflows on net pension liability	\$ 111,400	\$ 285,466	\$ 3,878	\$ 9,423	\$ 115,278	\$ 294,889
Total deferred inflows of resources	\$ 111,400	\$ 285,466	\$ 3,878	\$ 9,423	\$ 115,278	\$ 294,889
<b>Net position</b>						
Net investment in capital assets	\$ 2,787,289	\$ 2,727,055	\$ 2,022,844	\$ 1,871,554	\$ 4,810,133	\$ 4,598,609
Restricted	1,799,903	1,591,701	1,309,392	1,305,799	3,109,295	2,897,500
Unrestricted	(7,996,567)	(7,190,837)	1,141,536	1,058,108	(6,855,031)	(6,132,729)
Total net position	\$ (3,409,375)	\$ (2,872,081)	\$ 4,473,772	\$ 4,235,461	\$ 1,064,397	\$ 1,363,380

**Analysis of Net Position**

By far, the largest portion of the State's net position (\$4.8 billion or 451.9%) 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 position (\$3.1 billion or 292.1%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of negative \$6.9 billion or negative 644.0% represents unrestricted net position.

At June 30, 2017, the State is able to report positive balances in two of the categories of net position for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net position for governmental activities is primarily attributed

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to the State's other postemployment benefit liability of \$3.8 billion and pension liability of \$6.3 billion.

**Changes in Net Position**

The State's net position decreased by \$200.7 million, or 15.9%, during the year fiscal ended June 30, 2017. Approximately 57.5% of the State's total revenues came from taxes, while 26.9% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 15.1% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, general government, public safety, and highways.

The following financial information was derived from the Government-Wide Statement of Activities and reflects how the State's net position changed during the fiscal year.

**Summary Schedule of Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2017 and 2016**  
**(Amounts in thousands)**

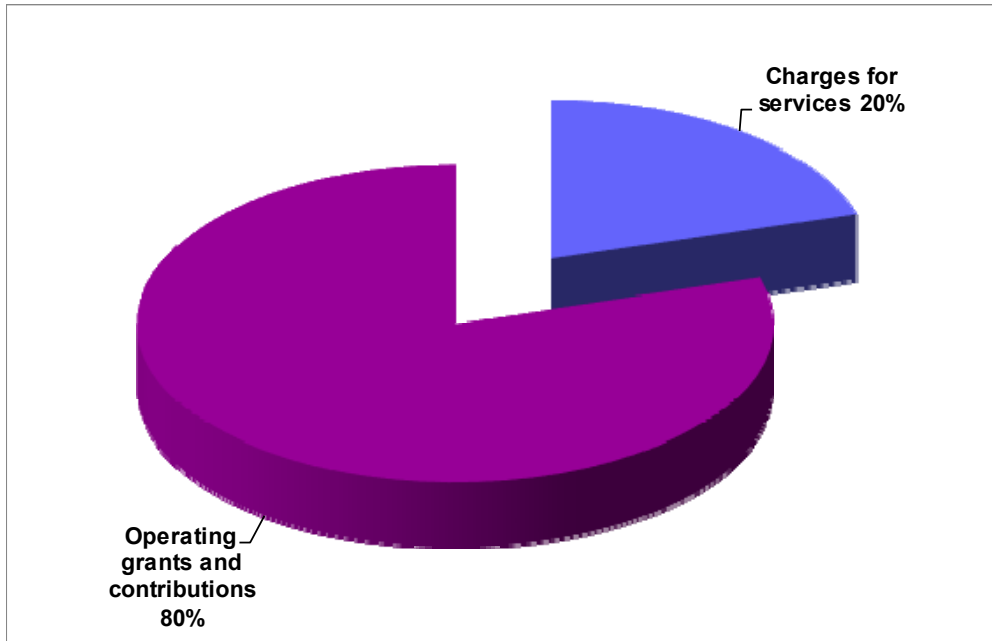
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 789,513	\$ 717,850	\$ 956,924	\$ 865,036	\$ 1,746,437	\$ 1,582,886
Operating grants and contributions	3,068,752	2,986,842	-	-	3,068,752	2,986,842
Capital grants and contributions	-	113,006	51,091	80,173	51,091	193,179
General revenues						
Taxes	6,655,094	6,453,501	-	-	6,655,094	6,453,501
Investment income and other	30,676	22,564	25,324	21,276	56,000	43,840
Total revenues	10,544,035	10,293,763	1,033,339	966,485	11,577,374	11,260,248
<b>Expenses</b>						
General government	631,052	688,394	-	-	631,052	688,394
Public safety	552,671	485,985	-	-	552,671	485,985
Highways	457,374	399,997	-	-	457,374	399,997
Conservation of natural resources	161,924	107,740	-	-	161,924	107,740
Health	889,216	878,610	-	-	889,216	878,610
Welfare	3,481,679	3,343,392	-	-	3,481,679	3,343,392
Lower education	3,157,517	2,840,782	-	-	3,157,517	2,840,782
Higher education	899,199	673,217	-	-	899,199	673,217
Other education	27,248	23,379	-	-	27,248	23,379
Culture and recreation	106,875	106,511	-	-	106,875	106,511
Urban redevelopment and housing	245,819	122,981	-	-	245,819	122,981
Economic development and assistance	161,077	163,935	-	-	161,077	163,935
Interest expense	212,042	210,204	-	-	212,042	210,204
Airports	-	-	408,517	377,393	408,517	377,393
Harbors	-	-	101,180	93,088	101,180	93,088
Unemployment compensation	-	-	173,735	144,481	173,735	144,481
Nonmajor proprietary fund	-	-	110,907	112,323	110,907	112,323
Total expenses	10,983,693	10,045,127	794,339	727,285	11,778,032	10,772,412
<b>Special item – loan forgiveness</b>	-	(13,300)	-	-	-	(13,300)
Change in net position	(439,658)	235,336	239,000	239,200	(200,658)	474,536
<b>Net position</b>						
Beginning of year, as previously reported	(2,872,081)	(3,107,417)	4,235,461	3,996,261	1,363,380	888,844
Adjustment for change in accounting principle	(97,636)	-	(689)	-	(98,325)	-
Beginning of year, as restated	(2,969,717)	(3,107,417)	4,234,772	3,996,261	1,265,055	888,844
End of year	\$ (3,409,375)	\$ (2,872,081)	\$ 4,473,772	\$ 4,235,461	\$ 1,064,397	\$ 1,363,380

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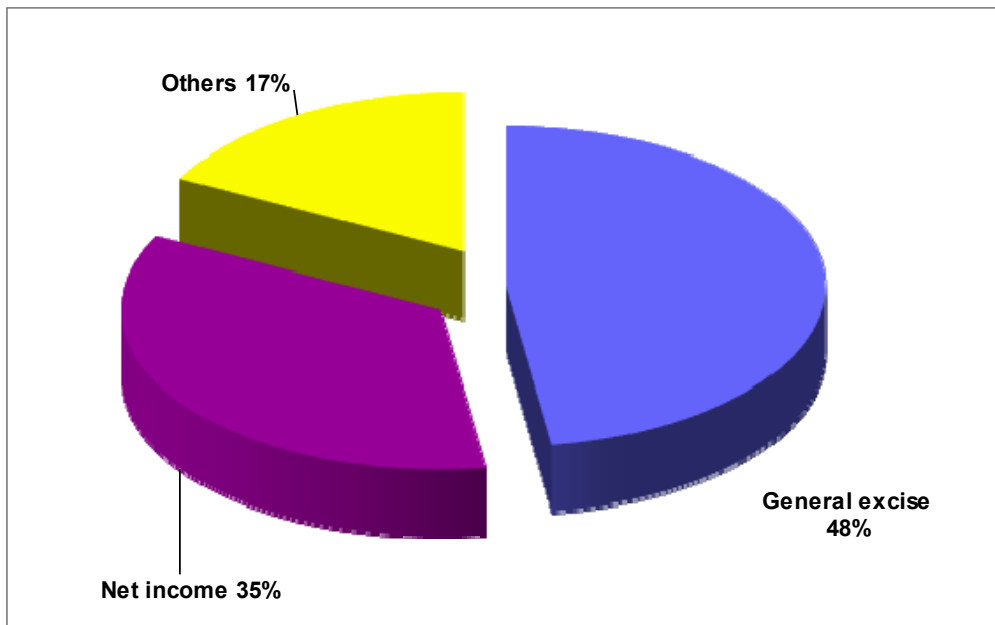
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The following charts depict revenues of the governmental activities for the fiscal year:

**Program Revenues by Source – Governmental Activities**  
**Fiscal Year Ended June 30, 2017**



**Tax Revenues by Source – Governmental Activities**  
**Fiscal Year Ended June 30, 2017**



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***Analysis of Changes in Net Position***

The State's net position decreased by \$200.7 million during the current fiscal year. This is explained in the governmental and business-type activities discussion, and is primarily due to decrease in net position of governmental activities of \$439.7 million and increase in net position of Unemployment Compensation Fund of \$14.8 million, Airports of \$136.2 million, Harbors of \$36.7 million, and Nonmajor Proprietary Funds of \$51.3 million.

***Governmental Activities***

Governmental activities decreased the State's net position by \$439.7 million. The elements of this decrease are reflected below:

	<b>Governmental Activities</b>	
	<b>(Amounts in thousands)</b>	
	<b>2017</b>	<b>2016</b>
<b>General revenues</b>		
Taxes	\$ 6,655,094	\$ 6,453,501
Interest and investment income and other	30,676	22,564
Total general revenues	<u>6,685,770</u>	<u>6,476,065</u>
<b>Expenses, net of program revenues</b>		
General government	309,953	443,718
Public safety	418,062	359,648
Highways	309,835	223,112
Conservation of natural resources	62,823	21,354
Health	623,694	616,792
Welfare	1,049,109	897,185
Lower education	2,848,595	2,521,925
Higher education	899,199	673,217
Other education	27,248	23,379
Culture and recreation	90,222	90,503
Urban redevelopment and housing	200,188	81,951
Economic development and assistance	74,458	64,441
Interest expense	<u>212,042</u>	<u>210,204</u>
Total governmental activities expenses, net of program revenues	7,125,428	6,227,429
<b>Special item – loan forgiveness</b>	<u>-</u>	<u>(13,300)</u>
Increase (decrease) in governmental activities net position	<u>\$ (439,658)</u>	<u>\$ 235,336</u>

Tax revenues increased by \$201.6 million, or 3.1%, from the previous fiscal year. The increase was primarily due to increase in corporations and individuals net income taxes of \$169.5 million, and transient accommodations taxes of \$66.6 million due to growth in the State economy.

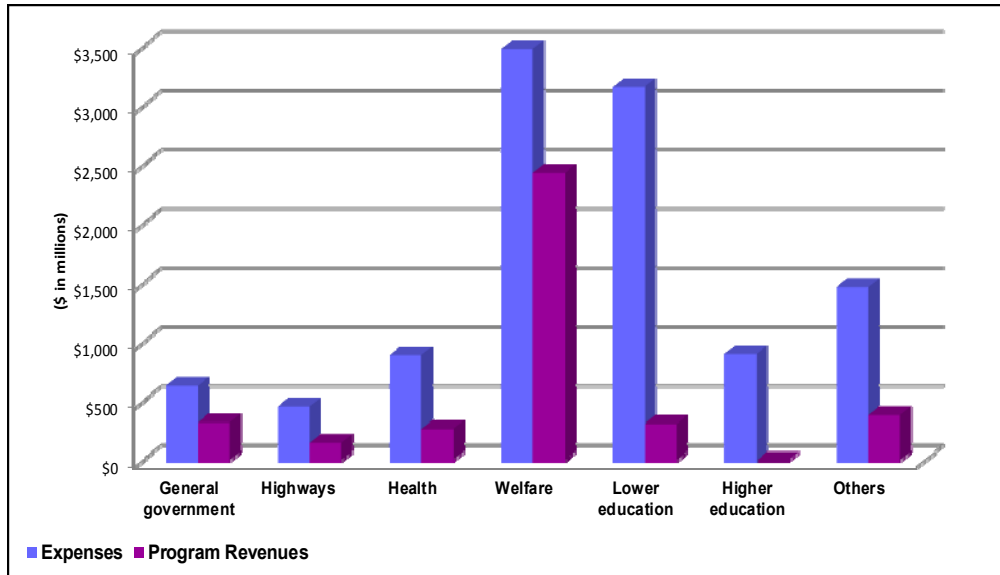
Lower education net expenses increased \$326.7 million or 13.0%. This change is primarily due to the decrease in revenues for the school based budgeting and instructional support programs.

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Management's Discussion and Analysis (Unaudited)  
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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:

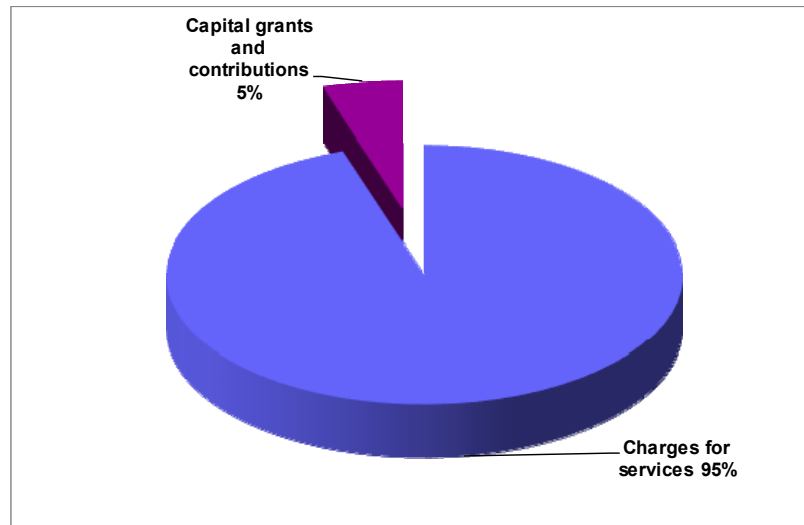
**Expenses and Program Revenues – Governmental Activities  
Fiscal Year Ended June 30, 2017**



***Business-Type Activities***

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

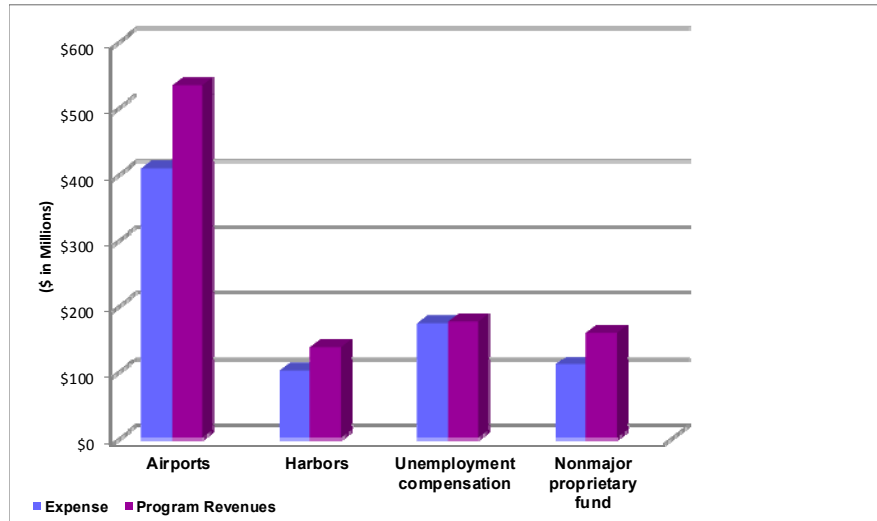
**Program Revenues by Source – Business-Type Activities  
Fiscal Year Ended June 30, 2017**



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**Expenses and Program Revenues – Business-Type Activities  
Fiscal Year Ended June 30, 2017**



Business-type activities increased the State's net position by \$239.0 million in fiscal 2017, compared to an increase of \$239.2 million in fiscal 2016. Key elements of this increase are as follows:

- Airports' net position increased \$136.2 million compared to an increase of \$115.9 million in the prior fiscal year. Charges for current services increased by \$51.7 million primarily due to the increase in landing fees and aeronautical revenues from an increase in passenger traffic. Operating and capital grants and contributions decreased \$4.3 million mainly due to the decrease in federal capital grants.
- Harbors' net position increased \$36.7 million in fiscal 2017 compared to an increase of \$38.8 million in fiscal 2016. Charges for current services increased by \$7.5 million, while expenses increased \$8.1 million.
- The Unemployment Compensation Fund's net position increased \$14.8 million compared to an increase of \$54.2 million in the prior fiscal year. The change was primarily due to an increase in unemployment benefits paid of \$29.3 million and a decrease in unemployment tax revenues of \$11.0 million.
- The Nonmajor Proprietary Fund's net position increased \$51.3 million in fiscal 2017 compared to an increase of \$30.4 million in fiscal 2016. This change was primarily due to an increase in EUTF's revenues from experience overpayments of \$36.6 million.

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- Key elements of the State's business-type activities for the fiscal years ended June 30, 2017 and 2016 are as follows:

	Business-Type Activities (Amounts in thousands)									
	Program Revenues									
	Charges for Services		Operating and Capital Grants and Contributions		Total					
	2017	2016	2017	2016	2017	2016	Expenses		Program Revenues Net of Expenses	
						2017	2016	2017	2016	
Airports	\$ 511,018	\$ 459,269	\$ 23,576	\$ 27,887	\$ 534,594	\$ 487,156	\$ 408,517	\$ 377,393	\$ 126,077	\$ 109,763
Harbors	137,620	130,126	300	-	137,920	130,126	101,180	93,088	36,740	37,038
Unemployment compensation	176,212	187,215	-	-	176,212	187,215	173,735	144,481	2,477	42,734
Nonmajor proprietary funds	132,074	88,426	27,215	52,286	159,289	140,712	110,907	112,323	48,382	28,389
Total	\$ 956,924	\$ 865,036	\$ 51,091	\$ 80,173	\$ 1,008,015	\$ 945,209	\$ 794,339	\$ 727,285	\$ 213,676	\$ 217,924

**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. The fund balance classifications comprise a hierarchy based primarily on the extent the State is bound to honor constraints on the specific purpose for which amounts can be spent.

At the end of the fiscal year, the State's Governmental Funds reported combined ending fund balances of \$3.5 billion. Of this amount, \$110.8 million is restricted for specific programs by external constraints, constitutional provisions or contractual obligations. An additional \$689.0 million has been committed to specific purposes. An additional \$1.5 billion has been assigned to specific purposes by management. The unassigned fund balance was \$1.2 billion at fiscal year end.

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the total fund balance of the General Fund was \$1.7 billion compared to \$1.8 billion in fiscal 2016. The fund balance of the State's Capital Projects Fund increased \$316.9 million during the fiscal year. The Capital Projects Fund increase is a result of the State's policy of recording expenditures upon the allotment of general obligation bond appropriations expended by component units and incurring general obligation bond expenditures in excess of cash available. The deficit caused by the recording of expenditures when funds are allotted is \$660.9 million and is reflected on the balance sheet as Due to Component Units. The fund balance of the Med-Quest Special Fund increased \$7.4 million and other Nonmajor Governmental Funds increased \$200.8 million.

**Proprietary Funds**

The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net position of \$136.2 million, Harbors had an increase in net position of \$36.7 million, the Unemployment Compensation Fund had an increase in net position of \$14.8 million, and the Nonmajor Proprietary Funds had an increase in net position of \$51.3 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.

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**June 30, 2017**

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***General Fund Budgetary Highlights***

The General Fund revenues were \$8.2 million, or 0.1%, more than the final budget. The positive variance was attributed to unfavorable tax revenues of \$54.9 million offset by favorable non-tax revenues of \$63.1 million. General excise tax collected was \$91.0 million less than what was projected offset by corporate income tax favorable variance of \$78.7 million. The favorable variance in other revenues is mainly comprised of more than anticipated bond premiums for the year that totaled \$140.6 million for which \$73.2 million was budgeted.

The difference between the final budget and actual expenditures on a budgetary basis was \$308.4 million. The large positive variance in general government of \$150.0 million was mostly due to \$64.6 million savings in health premiums and retirement payments due to lower than projected employee growth and enrollment in the State's health plans.

Also contributing to the positive variance was \$20.1 million of appropriations made to the State Legislature that can be carried over to the next fiscal year. As in previous years, the positive variance in lower education resulted when the Department of Education carried over \$74.8 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry up to 5% of its unencumbered appropriations. Spending restrictions imposed on all executive branch departments resulted in positive variances across all functions of government.

***Capital Assets***

The State's capital assets for its governmental and business-type activities as of June 30, 2017, amounted to \$13.1 billion (net of accumulated depreciation of \$12.0 billion), an increase of \$535.8 million from fiscal 2016. The increase is due to an increase in governmental activities assets of \$714.1 million and in business-type assets of \$422.1 million offset by increases in governmental activities and business-type activities accumulated depreciation of \$468.8 million and \$131.7 million, respectively. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2017, included the following:

- \$278.6 million for various capital improvement projects and repair and maintenance of public school facilities throughout the State.
- \$155.2 million for the consolidated car rental facility.
- \$191.7 million for various capital improvements at airports statewide.
- \$123.8 million for various highway improvement projects throughout the State.
- \$161.8 million for a new patient care facility at the Hawaii State Hospital.

Additional information on the State's capital assets can be found in Note 3 to the basic financial statements.



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**June 30, 2017**

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**Debt Administration**

At the end of the current fiscal year, the State had total bonded debt outstanding of \$9.7 billion. Of this amount, \$7.6 billion comprises debt backed by the full faith and credit of the State and \$2.1 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, 2017 and 2016**  
**(Amounts in thousands)**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 7,635,827	\$ 6,953,431	\$ 25,377	\$ 27,400	\$ 7,661,204	\$ 6,980,831
Revenue bonds	692,742	615,120	1,375,442	1,429,980	2,068,184	2,045,100
Total	\$ 8,328,569	\$ 7,568,551	\$ 1,400,819	\$ 1,457,380	\$ 9,729,388	\$ 9,025,931

The State's total long-term debt increased by \$703.5 million, or 7.8%, during the current fiscal year. The increase resulted from issuances of GO bonds and revenue bonds (see Notes 4 and 5 to the basic financial statements).

As of June 30, 2017, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa1), 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, 2017 was \$554.6 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 Postemployment Benefits (OPEB)**

The latest actuarial valuation studies were completed as of July 1, 2015 for the Employer-Union Health Benefits Trust Fund (EUTF) and the University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately \$9.1 billion. The State's combined annual OPEB cost for fiscal 2017 was \$814.5 million and its OPEB contributions were \$659.5 million, resulting in an increase in the net OPEB obligation of \$155.0 million. The total net OPEB obligation balance at fiscal year-end increased to \$5.1 billion.

In July 2013, Act 268 was signed into law, which established the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability. The law also requires the State beginning in fiscal 2015 to pay additional amounts towards reducing the unfunded liability until fiscal 2019 when 100% of the annual required contribution must be paid. Commencing fiscal year 2019, general excise tax revenues will be used to fund any difference between the annual required contribution and the payment made by the State. In June 2016 and 2017, the State made additional payments in the amount of \$250 million and \$327.7 million, respectively.

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**Economic Factors and Next Year's Budget**

The statewide seasonally adjusted unemployment rate for November 2017 was 2.0% while the seasonally adjusted national unemployment rate was 4.1%. One year ago, the State's seasonally adjusted unemployment rate stood at 3.0% while the seasonally adjusted national unemployment rate was 4.6%.

The Council of Revenues in September 2017 revised the State's General Fund tax revenue growth rate for fiscal year 2018 from 4.0% to 4.3%.

Cumulative general fund tax revenues for the first five months of fiscal 2018 was \$2.7 billion, an increase of \$119.2 million from the same period last fiscal year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 5.6%.

The State is optimistic about the recovery of Hawaii's economy but remains cautious about its sustainability in the face of numerous uncertainties. Therefore, the Governor has imposed a 10% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch for fiscal year 2018.

**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>.

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## **BASIC FINANCIAL STATEMENTS**

**State of Hawaii**  
**Statement of Net Position**  
**June 30, 2017**  
(Amounts in thousands)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 615,690	\$ 1,502,256	\$ 2,117,946	\$ 642,059
Receivables				
Taxes	479,773	49,715	529,488	-
Accounts and accrued interest, net	-	46,272	46,272	206,517
Notes, loans, mortgages and contributions, net	84,972	522,800	607,772	666,887
Federal government	122,180	11,273	133,453	1,365
Premiums	-	69,423	69,423	-
Drug rebate	52,584	-	52,584	-
Other, net	29,369	33,570	62,939	14,649
Total receivables	<u>768,878</u>	<u>733,053</u>	<u>1,501,931</u>	<u>889,418</u>
Internal balances	1,617	(1,617)	-	-
Due from component units	240,761	-	240,761	-
Due from primary government	-	-	-	670,835
Investments	3,550,723	37,127	3,587,850	1,073,894
Inventories				
Materials and supplies	-	206	206	25,887
Developments in progress and dwelling units	-	-	-	10,051
Total inventories	<u>-</u>	<u>206</u>	<u>206</u>	<u>35,938</u>
Restricted assets	-	1,015,133	1,015,133	139,994
Other assets				
Prepaid expenses	4,286	13,975	18,261	25,783
Other	25,260	-	25,260	95,416
Total other assets	<u>29,546</u>	<u>13,975</u>	<u>43,521</u>	<u>121,199</u>
Capital assets				
Land and land improvements	2,310,617	2,083,251	4,393,868	536,804
Infrastructure	9,720,538	-	9,720,538	287,344
Construction in progress	1,185,215	1,156,095	2,341,310	272,186
Buildings, improvements and equipment	5,660,621	2,816,336	8,476,957	4,831,154
Intangible assets – software	159,174	-	159,174	-
Accumulated depreciation and amortization	(9,443,947)	(2,594,998)	(12,038,945)	(2,693,323)
Total capital assets, net	<u>9,592,218</u>	<u>3,460,684</u>	<u>13,052,902</u>	<u>3,234,165</u>
Total assets	<u>14,799,433</u>	<u>6,760,817</u>	<u>21,560,250</u>	<u>6,807,502</u>
<b>Deferred outflows of resources</b>				
Deferred loss on refunding	235,855	5,693	241,548	10,378
Deferred outflows on net pension liability	2,160,068	75,708	2,235,776	856,772
Total deferred outflows of resources	<u>\$ 2,395,923</u>	<u>\$ 81,401</u>	<u>\$ 2,477,324</u>	<u>\$ 867,150</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Statement of Net Position**  
**June 30, 2017**  
(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Liabilities</b>				
Vouchers and contracts payable	\$ 355,572	\$ 48,823	\$ 404,395	\$ 171,956
Other accrued liabilities	333,953	167,724	501,677	104,615
Due to component units	670,835	-	670,835	-
Due to primary government	-	-	-	240,761
Unearned revenue	-	-	-	49,505
Premiums payable	-	43,854	43,854	-
Other	92,419	-	92,419	14,427
Long-term liabilities				
Due within one year				
Payable from restricted assets – revenue bonds payable, net	-	54,970	54,970	-
General obligation (GO) bonds payable	512,876	2,122	514,998	-
Notes, mortgages and installment contracts payable	-	-	-	18,757
Accrued vacation and retirement benefits payable	82,699	5,634	88,333	57,211
Revenue bonds payable, net	58,741	-	58,741	55,865
Reserve for losses and loss adjustment costs	45,088	1,669	46,757	10,213
Capital lease obligations	10,323	717	11,040	4,528
Lease revenue certificates of participation	-	6,346	6,346	-
Due more than one year				
Prepaid airport use charge fund	-	16,903	16,903	-
GO bonds payable	7,122,951	23,255	7,146,206	-
Notes, mortgages and installment contracts payable	-	-	-	44,596
Accrued vacation and retirement benefits payable	146,300	9,339	155,639	58,733
Revenue bonds payable, net	634,001	1,320,472	1,954,473	822,579
Reserve for losses and loss adjustment costs	153,231	3,233	156,464	20,960
Capital lease obligations	133,299	26,276	159,575	5,770
Lease revenue certificates of participation	-	219,467	219,467	-
Unearned revenue	-	-	-	20,944
Estimated future costs of land sold	-	-	-	34,777
Loan payable	-	76,000	76,000	-
Net pension liability	6,339,905	219,863	6,559,768	2,678,983
Other postemployment benefit liability	3,800,803	117,901	3,918,704	1,208,746
Other	335	-	335	68,349
Total liabilities	<u>20,493,331</u>	<u>2,364,568</u>	<u>22,857,899</u>	<u>5,692,275</u>
<b>Deferred inflows of resources</b>				
Deferred inflows on net pension liability	111,400	3,878	115,278	82,989
Total deferred inflows of resources	<u>111,400</u>	<u>3,878</u>	<u>115,278</u>	<u>82,989</u>
<b>Net position</b>				
Net investment in capital assets	2,787,289	2,022,844	4,810,133	2,432,077
Restricted for				
Capital maintenance projects	229,567	-	229,567	-
Health and welfare	194,019	-	194,019	-
Natural resources	143,416	-	143,416	-
Native Hawaiian programs	342,699	-	342,699	-
Education	168,217	-	168,217	-
Regulatory and economic development	275,287	-	275,287	-
Administrative support	405,237	-	405,237	-
Other purposes	41,426	-	41,426	-
Bond requirements and other	35	1,309,392	1,309,427	1,152,915
Unrestricted	<u>(7,996,567)</u>	<u>1,141,536</u>	<u>(6,855,031)</u>	<u>(1,685,604)</u>
Total net position	<u>\$ (3,409,375)</u>	<u>\$ 4,473,772</u>	<u>\$ 1,064,397</u>	<u>\$ 1,899,388</u>

**State of Hawaii**  
**Statement of Activities**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

Functions/Programs	Program Revenues				Net Revenue (Expense) and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
<b>Primary government</b>								
<b>Governmental activities</b>								
General government	\$ 631,052	\$ 289,116	\$ 31,983	\$ -	\$ (309,953)	\$ -	\$ (309,953)	
Public safety	552,671	81,939	52,670	-	(418,062)	-	(418,062)	
Highways	457,374	12,458	135,081	-	(309,835)	-	(309,835)	
Conservation of natural resources	161,924	64,847	34,254	-	(62,823)	-	(62,823)	
Health	889,216	143,363	122,159	-	(623,694)	-	(623,694)	
Welfare	3,481,679	86,224	2,346,346	-	(1,049,109)	-	(1,049,109)	
Lower education	3,157,517	53,679	255,243	-	(2,848,595)	-	(2,848,595)	
Higher education	899,199	-	-	-	(899,199)	-	(899,199)	
Other education	27,248	-	-	-	(27,248)	-	(27,248)	
Culture and recreation	106,875	9,007	7,646	-	(90,222)	-	(90,222)	
Urban redevelopment and housing	245,819	20,136	25,495	-	(200,188)	-	(200,188)	
Economic development and assistance	161,077	28,744	57,875	-	(74,458)	-	(74,458)	
Interest expense	212,042	-	-	-	(212,042)	-	(212,042)	
Total governmental activities	10,983,693	789,513	3,068,752	-	(7,125,428)	-	(7,125,428)	
<b>Business-type activities</b>								
Airports	408,517	511,018	-	23,576	-	126,077	126,077	
Harbors	101,180	137,620	-	300	-	36,740	36,740	
Unemployment compensation	173,735	176,212	-	-	-	2,477	2,477	
Nonmajor proprietary funds	110,907	132,074	-	27,215	-	48,382	48,382	
Total business-type activities	794,339	956,924	-	51,091	-	213,676	213,676	
Total primary government	\$ 11,778,032	\$ 1,746,437	\$ 3,068,752	\$ 51,091	(7,125,428)	213,676	(6,911,752)	
<b>Component units</b>								
University of Hawaii	\$ 1,778,245	\$ 402,638	\$ 424,593	\$ -				\$ (951,014)
Hawaii Housing Finance and Development Corporation	47,242	75,809	11,968	-				40,535
Hawaii Public Housing Authority	141,927	22,226	89,503	5,999				(24,199)
Hawaii Health Systems Corporation	879,234	679,170	2,486	10,032				(187,546)
Hawaii Tourism Authority	106,052	10,147	-	-				(95,905)
Hawaii Community Development Authority	8,319	3,782	-	-				(4,537)
Hawaii Hurricane Relief Fund	5	-	-	-				(5)
Total component units	\$ 2,961,024	\$ 1,193,772	\$ 528,550	\$ 16,031				(1,222,671)
<b>General revenues</b>								
<b>Taxes</b>								
General excise tax					3,189,599	-	3,189,599	-
Net income tax – corporations and individuals					2,330,408	-	2,330,408	-
Public service companies tax					122,159	-	122,159	-
Transient accommodations tax					299,712	-	299,712	108,500
Tobacco and liquor tax					160,906	-	160,906	-
Liquid fuel tax					84,933	-	84,933	-
Tax on premiums of insurance companies					166,836	-	166,836	-
Vehicle weight and registration tax					132,974	-	132,974	-
Rental motor/tour vehicle surcharge tax					53,189	-	53,189	-
Franchise tax					11,174	-	11,174	-
Other tax					103,204	-	103,204	-
Interest and investment income					30,676	25,324	56,000	41,892
Payments from the primary government, net					-	-	-	1,060,288
Gifts and subsidies					-	-	-	31,233
Other					-	-	-	59,346
Total general revenues					6,685,770	25,324	6,711,094	1,301,259
Change in net position					(439,658)	239,000	(200,658)	78,588
<b>Net position</b>								
Beginning of year, as previously reported					(2,872,081)	4,235,461	1,363,380	1,850,388
Adjustment for change in accounting principle					(97,636)	(689)	(98,325)	(29,588)
Beginning of year, as restated					(2,969,717)	4,234,772	1,265,055	1,820,800
End of year					\$ (3,409,375)	\$ 4,473,772	\$ 1,064,397	\$ 1,899,388

The accompanying notes are an integral part of the basic financial statements.

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**State of Hawaii  
Governmental Funds  
Balance Sheet  
June 30, 2017  
(Amounts in thousands)**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Med-Quest Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 120,199	\$ 164,345	\$ 1,357	\$ 329,789	\$ 615,690
Receivables					
Taxes	393,165	-	-	-	393,165
Notes and loans, net of allowance for doubtful accounts of \$47,781	1,380	-	-	83,593	84,973
Federal government	-	-	115,416	6,764	122,180
Drug rebate	-	-	52,584	-	52,584
Medical assistance	-	-	969	-	969
Other	7,901	-	-	-	7,901
Due from other funds	177,270	-	-	35	177,305
Due from proprietary funds	20	1,597	-	-	1,617
Due from component units	18,800	-	-	-	18,800
Investments	1,397,849	612,677	18,027	1,522,170	3,550,723
Other assets	3,881	-	-	8,561	12,442
Total assets	<u>\$ 2,120,465</u>	<u>\$ 778,619</u>	<u>\$ 188,353</u>	<u>\$ 1,950,912</u>	<u>\$ 5,038,349</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Vouchers and contracts payable	\$ 153,109	\$ 117,205	\$ 4,280	\$ 80,979	\$ 355,573
Other accrued liabilities	257,458	-	36,012	40,484	333,954
Due to other funds	35	-	136,010	41,260	177,305
Due to component units	3,792	660,949	-	-	664,741
Payable from restricted assets					
Matured bonds and interest payable	-	-	-	335	335
Total liabilities	<u>414,394</u>	<u>778,154</u>	<u>176,302</u>	<u>163,058</u>	<u>1,531,908</u>
<b>Fund balances</b>					
Restricted	-	101,131	-	9,619	110,750
Committed	-	2,535	-	686,445	688,980
Assigned	400,529	-	12,051	1,105,469	1,518,049
Unassigned	1,305,542	(103,201)	-	(13,679)	1,188,662
Total fund balances	<u>1,706,071</u>	<u>465</u>	<u>12,051</u>	<u>1,787,854</u>	<u>3,506,441</u>
Total liabilities and fund balances	<u>\$ 2,120,465</u>	<u>\$ 778,619</u>	<u>\$ 188,353</u>	<u>\$ 1,950,912</u>	<u>\$ 5,038,349</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

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Total fund balance – Governmental funds	\$ 3,506,441
Amounts reported for governmental activities in the statement of net position 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	2,310,617
Infrastructure	9,720,538
Construction in progress	1,185,215
Buildings, improvements and equipment	5,660,621
Intangible assets – software	159,174
Accumulated depreciation and amortization	<u>(9,443,947)</u>
	<u>9,592,218</u>
Accrued interest and other payables are not recognized in governmental funds.	<u>(92,419)</u>
Other assets and liabilities are not available to pay or be used for current-period expenditures and are not recognized in governmental funds, such as unearned revenue and settlement receivables.	<u>346,173</u>
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	(7,635,827)
Accrued vacation payable	(228,999)
Revenue bonds payable	(692,742)
Reserve for losses and loss adjustment costs	(198,319)
Other postemployment benefit liability	(3,800,803)
Net pension liability	(6,339,905)
Long-term transactions with component units	(6,094)
Capital lease obligations	<u>(143,622)</u>
	<u>(19,046,311)</u>
Deferred outflows of resources are for future periods and are not reported in the funds. Those deferred outflows consist of	
Deferred loss on refunding	235,855
Deferred outflows on net pension liability	<u>2,160,068</u>
	<u>2,395,923</u>
Deferred inflows of resources benefit future periods and are not reported in the funds. Those deferred inflows consist of deferred inflows on the net pension liability.	<u>(111,400)</u>
Net position of governmental activities	<u>\$ (3,409,375)</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes					
General excise tax	\$ 3,189,599	\$ -	\$ -	\$ -	\$ 3,189,599
Net income tax – corporations and individuals	2,286,017	-	-	-	2,286,017
Public service companies tax	122,159	-	-	-	122,159
Transient accommodations tax	299,712	-	-	-	299,712
Tobacco and liquor tax	133,959	-	-	26,947	160,906
Liquid fuel tax	-	-	-	84,933	84,933
Tax on premiums of insurance companies	164,688	-	-	2,148	166,836
Vehicle weight and registration tax	-	-	-	132,974	132,974
Rental motor/vehicle surcharge tax	2	-	-	53,187	53,189
Franchise tax	9,174	-	-	2,000	11,174
Other	83,795	-	-	19,409	103,204
Total taxes	<u>6,289,105</u>	<u>-</u>	<u>-</u>	<u>321,598</u>	<u>6,610,703</u>
Interest and investment income	14,402	-	-	16,274	30,676
Charges for current services	195,331	-	-	264,880	460,211
Intergovernmental	8,619	-	1,616,012	1,313,926	2,938,557
Rentals	323	-	-	35,207	35,530
Fines, forfeitures and penalties	22,450	-	-	16,753	39,203
Licenses and fees	1,070	-	-	45,823	46,893
Revenues from private sources	2,922	-	39,230	63,705	105,857
Other	118,196	-	62,725	67,468	248,389
Total revenues	<u>6,652,418</u>	<u>-</u>	<u>1,717,967</u>	<u>2,145,634</u>	<u>10,516,019</u>
<b>Expenditures</b>					
Current					
General government	526,006	97,949	-	77,128	701,083
Public safety	389,190	24,706	-	117,649	531,545
Highways	203	137,309	-	324,011	461,523
Conservation of natural resources	67,889	49,495	-	63,313	180,697
Health	614,536	46,743	-	212,424	873,703
Welfare	1,227,601	1,618	1,591,396	621,664	3,442,279
Lower education	2,304,577	266,820	-	402,186	2,973,583
Higher education	740,102	159,097	-	-	899,199
Other education	7,621	-	-	19,627	27,248
Culture and recreation	50,107	8,620	-	45,928	104,655
Urban redevelopment and housing	18,613	1,925	-	43,269	63,807
Economic development and assistance	47,736	42,815	-	88,576	179,127
Housing	29,805	103,205	-	-	133,010
Other	3,477	814	-	6,322	10,613
Debt service	-	-	-	780,756	780,756
Total expenditures	<u>6,027,463</u>	<u>941,116</u>	<u>1,591,396</u>	<u>2,802,853</u>	<u>11,362,828</u>
Excess (deficiency) of revenues over (under) expenditures	<u>624,955</u>	<u>(941,116)</u>	<u>126,571</u>	<u>(657,219)</u>	<u>(846,809)</u>
<b>Other financing sources (uses)</b>					
Issuance of GO and refunding GO bonds – par	-	1,020,000	-	616,760	1,636,760
Issuance of GO and refunding GO bonds – premium	142,105	-	-	135,231	277,336
Issuance of revenue and refunding revenue bonds – par	-	103,395	-	101,090	204,485
Issuance of revenue and refunding revenue bonds – premium	-	17,107	-	25,989	43,096
Payment to refunded bond escrow agent	-	-	-	(879,070)	(879,070)
Transfers in	197,119	121,012	4,188	1,122,612	1,444,931
Transfers out	<u>(1,053,472)</u>	<u>(3,509)</u>	<u>(123,328)</u>	<u>(264,622)</u>	<u>(1,444,931)</u>
Total other financing sources (uses)	<u>(714,248)</u>	<u>1,258,005</u>	<u>(119,140)</u>	<u>857,990</u>	<u>1,282,607</u>
Net change in fund balances	<u>(89,293)</u>	<u>316,889</u>	<u>7,431</u>	<u>200,771</u>	<u>435,798</u>
<b>Fund balances</b>					
Beginning of year	<u>1,795,364</u>	<u>(316,424)</u>	<u>4,620</u>	<u>1,587,083</u>	<u>3,070,643</u>
End of year	<u>\$ 1,706,071</u>	<u>\$ 465</u>	<u>\$ 12,051</u>	<u>\$ 1,787,854</u>	<u>\$ 3,506,441</u>

The accompanying notes are an integral part of the 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**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

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Total net change in fund balances – Governmental funds	\$ 435,798
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 asset additions	1,200,979
Capital asset disposals	(486,838)
Accumulated depreciation on disposals	15,621
Depreciation expense	(484,383)
Excess of capital outlay over depreciation expense	<u>245,379</u>
Debt proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, this is the amount of proceeds received from general obligation and revenue bonds issued.	<u>(2,161,677)</u>
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 position. In the current year, these amounts consist of	
Bond principal retirement	1,225,674
Capital lease additions, net	5,855
Total long-term debt repayment	<u>1,231,529</u>
Because some revenues will not be collected for several months after the State's fiscal year end, they are not considered available revenues and are deferred in the governmental funds.	<u>44,391</u>
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	(58,476)
Change in accrued vacation payable	(6,272)
Change in reserve for losses and loss adjustment costs	(31,754)
Change in accrued interest on bonds payable	(6,971)
Change in accrued interest on capital leases	(2,372)
Amortization of bond premium and deferred amount on refunding	212,969
Net pension activity	(342,202)
Total	<u>(235,078)</u>
Change in net position of governmental activities	<u>\$ (439,658)</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Proprietary Funds**  
**Statement of Fund Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 576,465	\$ 208,341	\$ 513,504	\$ 203,946	\$ 1,502,256
Investments	-	-	-	37,127	37,127
Restricted assets – cash and short-term investments	85,648	34,322	-	-	119,970
Receivables					
Taxes	254	-	49,461	-	49,715
Accounts and accrued interest, net of allowance for doubtful accounts of \$6,403	33,725	11,624	-	923	46,272
Promissory note receivable, net of allowance for doubtful accounts of \$3,761	-	-	-	39,524	39,524
Federal government	11,020	-	-	253	11,273
Premiums	-	-	-	69,423	69,423
Other	19,444	-	-	14,126	33,570
Materials and supplies inventory	206	-	-	-	206
Prepaid expenses and other assets	-	8,467	-	5,508	13,975
Total current assets	<u>726,762</u>	<u>262,754</u>	<u>562,965</u>	<u>370,830</u>	<u>1,923,311</u>
Noncurrent assets					
Capital assets					
Land and land improvements	1,516,539	566,712	-	-	2,083,251
Construction in progress	1,016,697	139,398	-	-	1,156,095
Buildings and improvements	1,998,633	483,796	-	-	2,482,429
Equipment	294,982	25,831	-	13,094	333,907
	4,826,851	1,215,737	-	13,094	6,055,682
Less: Accumulated depreciation	<u>(2,196,973)</u>	<u>(386,017)</u>	<u>-</u>	<u>(12,008)</u>	<u>(2,594,998)</u>
Net capital assets	2,629,878	829,720	-	1,086	3,460,684
Promissory note receivable	-	-	-	483,276	483,276
Restricted assets – net direct financing leases	21,878	-	-	-	21,878
Restricted assets – cash and cash equivalents	529,193	184,050	-	-	713,243
Restricted assets – investments	160,042	-	-	-	160,042
Total noncurrent assets	<u>3,340,991</u>	<u>1,013,770</u>	<u>-</u>	<u>484,362</u>	<u>4,839,123</u>
Total assets	<u>4,067,753</u>	<u>1,276,524</u>	<u>562,965</u>	<u>855,192</u>	<u>6,762,434</u>
<b>Deferred outflows of resources</b>					
Deferred loss on refunding	2,172	3,521	-	-	5,693
Deferred outflows on net pension liability	59,265	12,053	-	4,390	75,708
Total deferred outflows of resources	<u>\$ 61,437</u>	<u>\$ 15,574</u>	<u>\$ -</u>	<u>\$ 4,390</u>	<u>\$ 81,401</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Proprietary Funds**  
**Statement of Fund Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Vouchers and contracts payable	\$ 33,372	\$ 9,428	\$ 4,996	\$ 1,027	\$ 48,823
Payable from restricted assets – contracts payable, accrued interest and other	112,946	26,201	-	-	139,147
Other accrued liabilities	21,770	-	-	2,139	23,909
Due to primary government	-	1,617	-	-	1,617
Benefit claims payable	-	-	-	4,668	4,668
General obligation bonds payable, current portion	-	2,122	-	-	2,122
Reserve for losses and loss adjustment costs	1,411	258	-	-	1,669
Capital lease obligations	-	717	-	-	717
Lease revenue certificates of participation	6,346	-	-	-	6,346
Accrued vacation, current portion	4,683	725	-	226	5,634
Payable from restricted assets – revenue bond payable	38,935	16,035	-	-	54,970
Premiums payable	-	-	-	43,854	43,854
Total current liabilities	<u>219,463</u>	<u>57,103</u>	<u>4,996</u>	<u>51,914</u>	<u>333,476</u>
<b>Noncurrent liabilities</b>					
General obligation bonds payable	-	23,255	-	-	23,255
Accrued vacation	6,946	1,858	-	535	9,339
Revenue bonds payable, net of unamortized bond premium and bond discount	1,026,759	293,713	-	-	1,320,472
Reserve for losses and loss adjustment cost	2,850	383	-	-	3,233
Capital lease obligations	-	26,276	-	-	26,276
Lease revenue certificates of participation	219,467	-	-	-	219,467
Loans payable	76,000	-	-	-	76,000
Net pension liability	172,157	35,453	-	12,253	219,863
Other postemployment benefit liability	92,915	18,762	-	6,224	117,901
Prepaid airport use charge fund	16,903	-	-	-	16,903
Total noncurrent liabilities	<u>1,613,997</u>	<u>399,700</u>	<u>-</u>	<u>19,012</u>	<u>2,032,709</u>
Total liabilities	<u>1,833,460</u>	<u>456,803</u>	<u>4,996</u>	<u>70,926</u>	<u>2,366,185</u>
<b>Deferred inflows of resources</b>					
Deferred inflows on net pension liability	3,016	622	-	240	3,878
Total deferred inflows of resources	<u>3,016</u>	<u>622</u>	<u>-</u>	<u>240</u>	<u>3,878</u>
<b>Net position</b>					
Net investment in capital assets	1,493,025	528,734	-	1,085	2,022,844
Restricted for bond requirements and other	453,196	143,999	-	712,197	1,309,392
Unrestricted	346,493	161,940	557,969	75,134	1,141,536
Net position	<u>\$ 2,292,714</u>	<u>\$ 834,673</u>	<u>\$ 557,969</u>	<u>\$ 788,416</u>	<u>\$ 4,473,772</u>

**State of Hawaii**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
<b>Operating revenues</b>					
Concession fees	\$ 161,227	\$ -	\$ -	\$ -	\$ 161,227
Unemployment compensation	-	-	176,212	-	176,212
Aviation fuel tax	2,156	-	-	-	2,156
Airport use charges	77,858	-	-	-	77,858
Rentals	149,141	22,878	-	-	172,019
Services and others	-	113,161	-	-	113,161
Administrative fees	-	-	-	3,884	3,884
Premium revenue – self insurance	-	-	-	91,623	91,623
Experience refunds, net	-	-	-	30,683	30,683
Other	7,226	1,581	-	5,885	14,692
Total operating revenues	<u>397,608</u>	<u>137,620</u>	<u>176,212</u>	<u>132,075</u>	<u>843,515</u>
<b>Operating expenses</b>					
Personnel services	178,148	21,490	-	8,267	207,905
Depreciation and amortization	100,260	30,869	-	973	132,102
Repairs and maintenance	48,537	3,995	-	138	52,670
Airports operations	41,696	-	-	-	41,696
Harbors operations	-	21,695	-	-	21,695
General administration	19,496	10,402	-	4,075	33,973
Unemployment compensation	-	-	173,735	-	173,735
Claims	-	-	-	89,608	89,608
Other	767	-	-	7,847	8,614
Total operating expenses	<u>388,904</u>	<u>88,451</u>	<u>173,735</u>	<u>110,908</u>	<u>761,998</u>
Operating income	<u>8,704</u>	<u>49,169</u>	<u>2,477</u>	<u>21,167</u>	<u>81,517</u>
<b>Nonoperating revenues (expenses)</b>					
Interest and investment income	10,078	-	12,321	2,925	25,324
Interest expense	(19,573)	(12,015)	-	-	(31,588)
Federal grants	2,925	-	-	-	2,925
Loss on disposal of capital assets	(40)	(714)	-	-	(754)
Rental car customer and passenger facility charges	113,515	-	-	-	113,515
Other	(105)	-	-	-	(105)
Total nonoperating revenues (expenses)	<u>106,800</u>	<u>(12,729)</u>	<u>12,321</u>	<u>2,925</u>	<u>109,317</u>
Income before capital contributions	<u>115,504</u>	<u>36,440</u>	<u>14,798</u>	<u>24,092</u>	<u>190,834</u>
Capital contributions	<u>20,651</u>	<u>300</u>	<u>-</u>	<u>27,215</u>	<u>48,166</u>
Change in net position	<u>136,155</u>	<u>36,740</u>	<u>14,798</u>	<u>51,307</u>	<u>239,000</u>
<b>Net position</b>					
Beginning of year, as previously reported	2,156,559	798,519	543,171	737,212	4,235,461
Adjustment for change in accounting principle	-	(586)	-	(103)	(689)
Beginning of year, as restated	<u>2,156,559</u>	<u>797,933</u>	<u>543,171</u>	<u>737,109</u>	<u>4,234,772</u>
End of year	<u>\$ 2,292,714</u>	<u>\$ 834,673</u>	<u>\$ 557,969</u>	<u>\$ 788,416</u>	<u>\$ 4,473,772</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
<b>Cash flows from operating activities</b>					
Cash received from customers	\$ 390,330	\$ 142,071	\$ -	\$ -	\$ 532,401
Cash received from taxes	-	-	165,161	-	165,161
Cash received from employers and employees for premiums and benefits	-	-	-	596,464	596,464
Cash paid to suppliers	(181,087)	(34,997)	-	(4,014)	(220,098)
Cash paid to employees	(89,846)	(17,574)	-	(6,882)	(114,302)
Cash paid for unemployment compensation	-	-	(173,967)	-	(173,967)
Cash paid for premiums and benefits payable	-	-	-	(600,069)	(600,069)
Other cash receipts	-	-	5,233	-	5,233
Net cash provided by (used in) operating activities	<u>119,397</u>	<u>89,500</u>	<u>(3,573)</u>	<u>(14,501)</u>	<u>190,823</u>
<b>Cash flows from noncapital financing activities</b>					
Proceeds from federal operating grants	3,446	-	-	22,838	26,284
<b>Cash flows from capital and related financing activities</b>					
Acquisition and construction of capital assets	(292,315)	(41,741)	-	(116)	(334,172)
Proceeds from federal, state and capital grants and contributions	13,852	-	-	3,941	17,793
Proceeds from issuance of bonds	-	91,235	-	-	91,235
Repayment of general obligation and revenue bonds principal	(37,290)	(107,158)	-	-	(144,448)
Bond issue costs paid	(112)	-	-	-	(112)
Proceeds from lease revenue certificates of participation	51,473	-	-	-	51,473
Payments for lease revenue certificates of participation	(4,745)	-	-	-	(4,745)
Proceeds from draw on loan payable	41,090	-	-	-	41,090
Interest paid on outstanding debt	(61,682)	-	-	-	(61,682)
Proceeds from passenger facility charges program	39,544	-	-	-	39,544
Proceeds from rental car customer facility charges program	71,604	-	-	-	71,604
Interest paid on bonds	-	(17,082)	-	-	(17,082)
Receipts – other	6	-	-	-	6
Net cash provided by (used in) capital and related financing activities	<u>(178,575)</u>	<u>(74,746)</u>	<u>-</u>	<u>3,825</u>	<u>(249,496)</u>
<b>Cash flows from investing activities</b>					
Proceeds from sales and maturities of investments	154,706	-	-	3,594	158,300
Interest from and change in fair value of investments	7,350	2,527	12,320	2,513	24,710
Purchase of investments	(193,786)	-	-	(4,506)	(198,292)
Principal repayments on notes receivable	-	-	-	54,060	54,060
Disbursement of note receivable proceeds	-	-	-	(95,664)	(95,664)
Interest income from notes receivable	-	-	-	1,905	1,905
Administrative loan fees	-	-	-	3,945	3,945
Net cash provided by (used in) investing activities	<u>(31,730)</u>	<u>2,527</u>	<u>12,320</u>	<u>(34,153)</u>	<u>(51,036)</u>
Net increase (decrease) in cash and cash equivalents	<u>(87,462)</u>	<u>17,281</u>	<u>8,747</u>	<u>(21,991)</u>	<u>(83,425)</u>
<b>Cash and short-term investments, including restricted amounts</b>					
Beginning of year	1,278,768	409,432	504,757	225,937	2,418,894
End of year	<u>\$ 1,191,306</u>	<u>\$ 426,713</u>	<u>\$ 513,504</u>	<u>\$ 203,946</u>	<u>\$ 2,335,469</u>

(continued)

The accompanying notes are an integral part of the basic financial statements.



**State of Hawaii  
Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2017  
(Amounts in thousands)**

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>					
Operating income	\$ 8,704	\$ 49,169	\$ 2,477	\$ 21,167	\$ 81,517
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation and amortization	100,260	30,869	-	973	132,102
Provision for uncollectible accounts	455	(195)	-	-	260
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	6,553	-	-	-	6,553
Premium reserves held by insurance companies	-	-	-	(35,673)	(35,673)
Principal forgiveness of loans	-	-	-	5,578	5,578
Interest income from loans	-	-	-	(1,902)	(1,902)
Administrative loan fees	-	-	-	(3,884)	(3,884)
Pension expense	-	-	-	33	33
Changes in assets, deferred outflows, liabilities and deferred inflows					
Receivables	(10,738)	305	(5,818)	(1,526)	(17,777)
Prepaid and other expenses	-	60	-	(231)	(171)
Net deferred outflows/inflows of resources related to pensions	(44,804)	(11,094)	-	(3,622)	(59,520)
Vouchers and contracts payable	(9,615)	1,134	(232)	47	(8,666)
Net pension liability	57,378	12,357	-	4,637	74,372
Other postemployment benefit liability	7,319	1,445	-	706	9,470
Other accrued liabilities	5,314	5,450	-	(759)	10,005
Unearned revenue	(1,429)	-	-	-	(1,429)
Benefit claims payable	-	-	-	(45)	(45)
Net cash provided by (used in) operating activities	<u>\$ 119,397</u>	<u>\$ 89,500</u>	<u>\$ (3,573)</u>	<u>\$ (14,501)</u>	<u>\$ 190,823</u>
<b>Supplemental information</b>					
Noncash investing, capital, and financing activities					
Amortization of bond discount, bond premium and loss on refunding	\$ (2,404)	\$ (798)	\$ -	\$ -	\$ (3,202)
Interest payments relating to special facility revenue bonds	1,222	-	-	-	1,222
Amortization of certificates of participation premium	(900)	-	-	-	(900)
Amounts included in contracts payable for the acquisition of capital assets	82,989	9,526	-	-	92,515
Capital lease obligation	-	26,993	-	-	26,993
Interest capitalized in capital assets	38,396	3,920	-	-	42,316
Capital contributions	-	300	-	-	300
Net book value of capital asset write-offs	40	-	-	-	40
In-kind contribution from the Environmental Protection Agency	-	-	-	297	297

(concluded)

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

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	<u>Agency Funds</u>	<u>OPEB Trust Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 118,769	\$ 170,347
Receivables – taxes	51,290	-
Investments		
Certificates of deposit	107,164	-
U.S. government securities	199,020	107,868
Equity securities	-	413,652
Mutual funds	132,899	-
Commingled funds	-	1,011,685
Alternative investments	-	74,919
Derivatives	-	(148)
Invested securities lending collateral	-	27,061
Other assets, primarily due from individuals, businesses and counties	<u>85,795</u>	<u>-</u>
Total assets	<u>694,937</u>	<u>1,805,384</u>
<b>Liabilities and Net Position</b>		
Liabilities		
Vouchers payable	65,224	-
Due to individuals, businesses and counties	629,713	-
Securities lending collateral	-	27,061
Other accrued liabilities	<u>-</u>	<u>649</u>
Total liabilities	<u>694,937</u>	<u>27,710</u>
Net position held in trust for OPEB benefits	<u>\$ -</u>	<u>\$ 1,777,674</u>

The accompanying notes are an integral part of the basic financial statements.

**State of Hawaii**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Position – OPEB Trust Fund**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

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<b>Additions</b>	
Employer contributions	\$ 427,299
Investment income	
Investing activities	
Interest	32,616
Net appreciation in the fair value of investments	110,301
	<u>142,917</u>
Less: Investment expenses	2,676
Net investment income from investing activities	<u>140,241</u>
Securities lending activities	
Securities lending income	386
Less: Securities lending expenses	96
Net investment income from securities lending activities	<u>290</u>
Total net investment income	<u>140,531</u>
Net increase in fiduciary net position	567,830
<b>Net position</b>	
Beginning of year	<u>1,209,844</u>
End of year	<u>\$ 1,777,674</u>

The accompanying notes are an integral part of the basic financial statements.

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**State of Hawaii**  
**Component Units**  
**Statement of Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

	<u>University of Hawaii</u>	<u>Hawaii Housing Finance and Development Corporation</u>	<u>Hawaii Public Housing Authority</u>	<u>Hawaii Health Systems Corporation</u>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 69,096	\$ 266,045	\$ 83,405	\$ 114,576
Receivables				
Accounts and accrued interest, net of allowance for doubtful accounts of \$72,329	79,651	26,518	326	98,315
Notes, loans, mortgages and contributions, net of allowance for doubtful accounts of \$1,029	17,035	34,833	-	-
Federal government	-	-	1,365	-
Other, net of allowance for doubtful accounts of \$136	-	2,034	4,976	7,072
Due from primary government	343	117,058	103,999	54,527
Investments	355,180	-	-	7,325
Inventories – materials and supplies	7,902	-	638	17,347
Prepaid expenses and other assets	15,229	332	2,794	-
Total current assets	<u>544,436</u>	<u>446,820</u>	<u>197,503</u>	<u>299,162</u>
Restricted assets				
Cash and cash equivalents	-	63,055	-	3,244
Investments	-	57,762	-	-
Total restricted assets	<u>-</u>	<u>120,817</u>	<u>-</u>	<u>3,244</u>
Capital assets				
Land and land improvements	186,940	49,955	25,340	7,815
Infrastructure	243,030	-	-	-
Construction in progress	170,027	-	58,545	35,180
Buildings, improvements and equipment	2,990,957	159,566	665,067	772,384
Less: Accumulated depreciation	<u>(1,503,221)</u>	<u>(123,152)</u>	<u>(404,802)</u>	<u>(451,690)</u>
Total capital assets, net	<u>2,087,733</u>	<u>86,369</u>	<u>344,150</u>	<u>363,689</u>
Other assets				
Notes, loans, mortgages and contributions, net of allowance for doubtful accounts of \$6,485	34,619	554,683	8,717	-
Due from primary government	377,932	4,715	-	-
Inventories – developments in progress and dwelling units	-	10,051	-	-
Investments	507,613	5,369	-	-
Other assets	94,606	-	-	453
Total other assets	<u>1,014,770</u>	<u>574,818</u>	<u>8,717</u>	<u>453</u>
Total assets	<u>3,646,939</u>	<u>1,228,824</u>	<u>550,370</u>	<u>666,548</u>
<b>Deferred outflows of resources</b>				
Deferred loss on refunding	9,995	383	-	-
Deferred outflows on net pension liability	557,225	3,654	12,939	279,905
Total deferred outflows of resources	<u>\$ 567,220</u>	<u>\$ 4,037</u>	<u>\$ 12,939</u>	<u>\$ 279,905</u>

The accompanying notes are an integral part of the basic financial statements.

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<u>Hawaii Tourism Authority</u>	<u>Hawaii Community Development Authority</u>	<u>Hawaii Hurricane Relief Fund</u>	<u>Total Component Units</u>
\$ 81,722	\$ 26,864	\$ 351	\$ 642,059
-	953	754	206,517
-	-	-	51,868
-	-	-	1,365
567	-	-	14,649
-	12,261	-	288,188
-	-	186,822	549,327
-	-	-	25,887
7,427	1	-	25,783
<u>89,716</u>	<u>40,079</u>	<u>187,927</u>	<u>1,805,643</u>
15,933	-	-	82,232
-	-	-	57,762
<u>15,933</u>	<u>-</u>	<u>-</u>	<u>139,994</u>
131,497	135,257	-	536,804
-	44,314	-	287,344
5,305	3,129	-	272,186
216,969	26,211	-	4,831,154
(147,408)	(63,050)	-	(2,693,323)
<u>206,363</u>	<u>145,861</u>	<u>-</u>	<u>3,234,165</u>
-	17,000	-	615,019
-	-	-	382,647
-	-	-	10,051
11,585	-	-	524,567
-	357	-	95,416
<u>11,585</u>	<u>17,357</u>	<u>-</u>	<u>1,627,700</u>
<u>323,597</u>	<u>203,297</u>	<u>187,927</u>	<u>6,807,502</u>
-	-	-	10,378
2,036	1,013	-	856,772
<u>\$ 2,036</u>	<u>\$ 1,013</u>	<u>\$ -</u>	<u>\$ 867,150</u>

(continued)

**State of Hawaii**  
**Component Units**  
**Statement of Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

	<u>University of Hawaii</u>	<u>Hawaii Housing Finance and Development Corporation</u>	<u>Hawaii Public Housing Authority</u>	<u>Hawaii Health Systems Corporation</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Vouchers and contracts payable	\$ 60,696	\$ 128	\$ 7,406	\$ 93,164
Other accrued liabilities	93,726	7,639	2,982	-
Due to primary government	6,000	-	-	-
Unearned revenue	48,657	385	291	-
Notes, mortgages and installation contracts payable	17,000	14	-	1,743
Accrued vacation and retirement benefits payable	30,627	-	-	26,371
Revenue bonds payable, net	19,115	36,750	-	-
Reserve for losses and loss adjustment costs	6,247	-	-	3,966
Capital lease obligations	-	-	-	4,528
Other liabilities	7,017	-	1,553	1,215
Total current liabilities	<u>289,085</u>	<u>44,916</u>	<u>12,232</u>	<u>130,987</u>
<b>Noncurrent liabilities</b>				
Notes, mortgages and installment contracts payable	8,200	125	-	36,271
Accrued vacation and retirement benefits payable	45,280	-	-	13,030
Revenue bonds payable, net	537,977	284,602	-	-
Reserve for losses and loss adjustment costs	12,186	-	-	8,774
Capital lease obligations	-	-	-	5,770
Due to primary government	-	-	-	-
Unearned revenue	-	20,944	-	-
Estimated future cost of land sold	-	34,777	-	-
Net pension liability	1,704,470	10,209	38,216	916,111
Other postemployment benefit liability	788,773	4,787	22,952	387,735
Other liabilities	33,490	1,819	1,708	20,393
Total noncurrent liabilities	<u>3,130,376</u>	<u>357,263</u>	<u>62,876</u>	<u>1,388,084</u>
Total liabilities	<u>3,419,461</u>	<u>402,179</u>	<u>75,108</u>	<u>1,519,071</u>
<b>Deferred inflows of resources</b>				
Deferred inflows on net pension liability	65,171	582	730	16,107
Total deferred inflows of resources	<u>65,171</u>	<u>582</u>	<u>730</u>	<u>16,107</u>
<b>Net position</b>				
Net investment in capital assets	1,541,725	48,268	344,149	322,517
Restricted	928,896	162,693	4,657	1,302
Unrestricted	<u>(1,741,094)</u>	<u>619,139</u>	<u>138,665</u>	<u>(912,544)</u>
Total net position	<u>\$ 729,527</u>	<u>\$ 830,100</u>	<u>\$ 487,471</u>	<u>\$ (588,725)</u>

The accompanying notes are an integral part of the basic financial statements.

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<u>Hawaii Tourism Authority</u>	<u>Hawaii Community Development Authority</u>	<u>Hawaii Hurricane Relief Fund</u>	<u>Total Component Units</u>
\$ 7,787	\$ 291	\$ 2,484	\$ 171,956
147	121	-	104,615
34,360	-	-	40,360
-	172	-	49,505
-	-	-	18,757
125	88	-	57,211
-	-	-	55,865
-	-	-	10,213
-	-	-	4,528
-	1,360	3,282	14,427
<u>42,419</u>	<u>2,032</u>	<u>5,766</u>	<u>527,437</u>
-	-	-	44,596
220	203	-	58,733
-	-	-	822,579
-	-	-	20,960
-	-	-	5,770
200,401	-	-	200,401
-	-	-	20,944
-	-	-	34,777
6,307	3,670	-	2,678,983
2,431	2,068	-	1,208,746
-	10,939	-	68,349
<u>209,359</u>	<u>16,880</u>	<u>-</u>	<u>5,164,838</u>
<u>251,778</u>	<u>18,912</u>	<u>5,766</u>	<u>5,692,275</u>
<u>399</u>	<u>-</u>	<u>-</u>	<u>82,989</u>
<u>399</u>	<u>-</u>	<u>-</u>	<u>82,989</u>
29,557	145,861	-	2,432,077
43,899	11,468	-	1,152,915
-	28,069	182,161	(1,685,604)
<u>\$ 73,456</u>	<u>\$ 185,398</u>	<u>\$ 182,161</u>	<u>\$ 1,899,388</u>

(concluded)



**State of Hawaii**  
**Component Units**  
**Statement of Activities**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	<u>University of Hawaii</u>	<u>Hawaii Housing Finance and Development Corporation</u>	<u>Hawaii Public Housing Authority</u>	<u>Hawaii Health Systems Corporation</u>
<b>Expenses</b>	<u>\$ 1,778,245</u>	<u>\$ 47,242</u>	<u>\$ 141,927</u>	<u>\$ 879,234</u>
<b>Program revenues</b>				
Charges for services	402,638	75,809	22,226	679,170
Operating grants and contributions	424,593	11,968	89,503	2,486
Capital grants and contributions	-	-	5,999	10,032
Total program revenues	<u>827,231</u>	<u>87,777</u>	<u>117,728</u>	<u>691,688</u>
Net program revenues (expenses)	<u>(951,014)</u>	<u>40,535</u>	<u>(24,199)</u>	<u>(187,546)</u>
<b>General revenues (expenses)</b>				
Interest and investment income	42,509	-	-	408
Transient accommodations tax	-	-	-	-
Payments from State, net	838,749	69,599	42,498	110,690
Gifts and subsidies	31,233	-	-	-
Other	71,599	-	270	(12,561)
Net general revenues (expenses)	<u>984,090</u>	<u>69,599</u>	<u>42,768</u>	<u>98,537</u>
Change in net position	<u>33,076</u>	<u>110,134</u>	<u>18,569</u>	<u>(89,009)</u>
<b>Net position</b>				
Beginning of year, as previously reported	725,435	719,966	469,506	(499,716)
Adjustment for change in accounting principle	<u>(28,984)</u>	<u>-</u>	<u>(604)</u>	<u>-</u>
Beginning of year, as restated	<u>696,451</u>	<u>719,966</u>	<u>468,902</u>	<u>(499,716)</u>
End of year	<u>\$ 729,527</u>	<u>\$ 830,100</u>	<u>\$ 487,471</u>	<u>\$ (588,725)</u>

The accompanying notes are an integral part of the basic financial statements.

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<b>Hawaii Tourism Authority</b>	<b>Hawaii Community Development Authority</b>	<b>Hawaii Hurricane Relief Fund</b>	<b>Total Component Units</b>
\$ 106,052	\$ 8,319	\$ 5	\$ 2,961,024
10,147	3,782	-	1,193,772
-	-	-	528,550
-	-	-	16,031
<u>10,147</u>	<u>3,782</u>	<u>-</u>	<u>1,738,353</u>
<u>(95,905)</u>	<u>(4,537)</u>	<u>(5)</u>	<u>(1,222,671)</u>
263	201	(1,489)	41,892
108,500	-	-	108,500
(30)	2,064	(3,282)	1,060,288
-	-	-	31,233
<u>38</u>	<u>-</u>	<u>-</u>	<u>59,346</u>
<u>108,771</u>	<u>2,265</u>	<u>(4,771)</u>	<u>1,301,259</u>
<u>12,866</u>	<u>(2,272)</u>	<u>(4,776)</u>	<u>78,588</u>
60,590	187,670	186,937	1,850,388
-	-	-	(29,588)
<u>60,590</u>	<u>187,670</u>	<u>186,937</u>	<u>1,820,800</u>
<u>\$ 73,456</u>	<u>\$ 185,398</u>	<u>\$ 182,161</u>	<u>\$ 1,899,388</u>

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2017

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#### 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 Resource Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2017

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#### ***Discretely Presented Component Units***

The Component Units column in the basic financial statements includes the financial data for the State's discretely presented Component Units. They are reported in a separate column to emphasize their legal separation from the State. The discretely presented Component Units are:

- ***University of Hawaii*** – The University of Hawaii (UH) is Hawaii's sole public higher education system. Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH.

The UH is comprised of ten campuses and provides a broad range of degree (baccalaureate to post-doctoral level) programs, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on Oahu, Hawaii, Maui and Kauai, the UH offers certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the UH houses more than a hundred centers with a research, instruction or public service purpose. The UH is also engaged in instructional research and service activities at hundreds of Hawaii schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

The UH Board of Regents is appointed by the Governor of the State of Hawaii. The UH is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The UH's complete financial statements are available online at: <http://www.hawaii.edu>.

- ***Hawaii Housing Finance and Development Corporation*** – The Hawaii Housing Finance and Development Corporation (HHFDC) was established by Act 196, SLH 2005, as amended by Act 180, SLH 2006. The HHFDC is a corporate body placed within the Department of Business Economic Development and Tourism (DBEDT) for administrative purposes. The HHFDC's mission is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development. Tools and resources include housing tax credits, low interest construction loans, equity gap loans, developable land, and expedited land use approvals.

The HHFDC's Board of Directors is appointed by the Governor of the State of Hawaii. The HHFDC is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The HHFDC's complete financial statements are available online at: <http://www.dbedt.hawaii.gov/hhfdc>.

- ***Hawaii Public Housing Authority*** – The Hawaii Public Housing Authority (HPHA) was established by Act 196, SLH 2005, as amended by Act 180, SLH 2006. The HPHA is administratively attached to the Department of Human Services. Its mission is to provide safe, decent and sanitary dwellings for low and moderate income residents of the State of Hawaii and to operate its housing program in accordance with federal and State of Hawaii laws and regulations.

The HPHA's Board of Directors is appointed by the Governor of the State of Hawaii. The HPHA is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The HPHA's complete financial statements are available online at: <http://www.hpha.hawaii.gov>.

**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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- **Hawaii Health Systems Corporation** – Act 262, SLH 1996, transferred all facilities previously under the Department of Health – Division of Community Hospitals to the Hawaii Health Systems Corporation (HHSC). The HHSC is administratively attached to the Department of Health. Its mission is to provide and enhance accessible and comprehensive healthcare services that are quality-driven, customer-focused, and cost-effective. It operates the following facilities:

East Hawaii Region:

Hilo Medical Center  
Hale Ho'ola Hamakua  
Ka'u Hospital  
Yukio Okutsu Veterans Care Home

Maui Region (through June 30, 2017):

Maui Memorial Medical Center  
Kula Hospital  
Lanai Community Hospital

West Hawaii Region:

Kona Community Hospital  
Kohala Hospital

Oahu Region:

Leahi Hospital  
Maluhia

Kauai Region:

Kauai Veterans Memorial Hospital  
Samuel Mahelona Memorial Hospital

Kahuku Medical Center

The HHSC's Board of Directors is appointed by the Governor of the State of Hawaii. The HHSC is a public body corporate and politic and an instrumentality and agency of the State of Hawaii that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. The HHSC's complete financial statements are available online at: <http://www.hhsc.org>.

- **Hawaii Tourism Authority** – The Hawaii Tourism Authority (HTA) was established by Act 156, SLH 1998. The HTA is administratively attached to DBEDT. The HTA is responsible for developing and implementing 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.

Effective July 2002, in accordance with Executive Order No. 3817, the HTA assumed control and management of the Hawaii Convention Center (Center). Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA's Board of Directors is appointed by the Governor of the State of Hawaii. The HTA is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. Information for obtaining the HTA's complete financial statements may be obtained from the Hawaii Tourism Authority, 1801 Kalakaua Avenue, Honolulu, Hawaii 96815.

**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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- **Hawaii Community Development Authority** – The Hawaii Community Development Authority (HCDA) was established by HRS Chapter 206E to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in the urban areas of the State of Hawaii. The HCDA was established as a body corporate and a public instrumentality of the State and is administratively attached to DBEDT. The HCDA has three Community Development Districts: Kaka'ako, Kalaeloa and He'eia.

The HCDA's Board of Directors is appointed by the Governor of the State of Hawaii. The HCDA is a separate legal entity that is financially accountable to and fiscally dependent (potential to impose a financial burden) on the State and is therefore included as a discretely presented Component Unit. Information for obtaining the HCDA's complete financial statements may be obtained from the Hawaii Community Development Authority, 547 Queen Street, Honolulu, Hawaii 96813.

- **Hawaii Hurricane Relief Fund** – The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to and operates in accordance with HRS Chapter 431P. The HHRF was established as a public body and a body corporate and politic and is administratively attached to the Department of Commerce and Consumer Affairs.

The HHRF was primarily organized to provide residential and commercial hurricane property insurance coverage to Hawaii consumers in situations where insurance companies will not underwrite such business in the State. Due to the increase in availability of hurricane insurance coverage from the private sector, the HHRF ceased writing policies effective December 1, 2000. However, it was determined that the HHRF should not be dissolved as it may need to reenter the insurance market in the future.

In the event of dissolution of the HHRF, the net monies within the hurricane reserve trust fund shall revert to the State General Fund after any payments on behalf of licensed property and casualty insurers or the State that are required to be made pursuant to any federal disaster insurance program enacted to provide insurance or reinsurance for hurricane risks.

The HHRF's Board of Directors is appointed by the Governor of the State of Hawaii. The HHRF is financially accountable, poses a financial burden or benefit to the State, and is therefore included as a discretely presented Component Unit. Information for obtaining the HHRF's complete financial statements may be obtained from the Department of Commerce and Consumer Affairs, 335 Merchant Street, 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 position 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

**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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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 included in 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 position is restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net position is 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 position. 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 discretely presented 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.

**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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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.

***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. The financial statements of the Other Postemployment Benefit (OPEB) Trust Fund are reported as a fiduciary fund using the economic resource measurement focus and the accrual basis of accounting. Agency Funds do not have a measurement focus and report only assets and liabilities.

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.



# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2017

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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 long-term bond obligations. This fund also accounts for financial resources obtained and used to refund existing debt.

**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 Treatment Revolving 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** –

- **Agency Funds** – Agency Funds account for retiree healthcare benefits, which includes medical, dental and life insurance coverage as well as various taxes, deposits and property held by the State, pending distribution to other governments and individuals.
- **OPEB Trust Fund** – This Fund accounts for plan assets and related expenses from the pre-funding contributions made by the State and counties. The OPEB Trust Fund meets the criteria for plans that are administered as trusts or equivalent arrangements.

**Component Units** – Component Units are comprised of the following:

- UH, which is comprised of the State’s public institutions of higher education;
- HHFDC, which finances housing programs for residents of the State;
- HPHA, which manages state housing programs;
- HHSC, which provides quality health care for the people of the State;
- HTA, which manages the State’s convention center as well as markets the State’s visitor industry;
- HCDA, which coordinates private and public community development for residents of the State; and
- HHRF, which funds, assesses and provides, when necessary, hurricane property insurance to residents of the State.

**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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**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.

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

**Investments**

The State's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles.

**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.

**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, equipment, and computer software, 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 acquisition 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.

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2017

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The State's capitalization thresholds are \$5,000 for equipment, and \$100,000 for land and land improvements, infrastructure, and buildings and improvements. The Primary Government's capitalization threshold is \$1,000,000 for purchased and internally generated software and \$100,000 for other intangible assets. Component units and major enterprise funds establish separate capitalization thresholds and estimated useful lives, as appropriate. 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
Computer software	5–15 years
Other intangible assets	30 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.

#### **Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The State defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the effective interest rate method. The deferred outflow of resources related to pensions resulted from differences between expected and actual experiences, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, and changes in proportion which will be amortized over five years, and the State's contributions to the pension plan subsequent to the measurement date of the actuarial valuations for the pension plans which will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred inflow of resources related to pensions resulted from differences between expected and actual experiences and changes in proportion of the pension plan which will be amortized over five years.

#### **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 position. Initial-issue bond premiums and discounts, as

# State of Hawaii

## Notes to Basic Financial Statements

### June 30, 2017

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well as prepaid insurance 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. Bond issuance costs, except any portion related to prepaid insurance costs, are expensed in the period incurred. Amortization of bond premiums or discounts, prepaid insurance costs, and deferred amounts on refunding is included in interest expense.

In the Fund financial statements, Governmental Funds recognize bond premiums, discounts and prepaid insurance 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 Position and Fund Balance**

In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net position is reported in three categories: net investment in capital assets, restricted net position, and unrestricted net position. Restricted net position represents net position restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and includes 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.

The State classifies fund balance based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments. Sources of these externally enforceable legal restrictions include creditors, grantors or other governments.
- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action (i.e., legislation) of the State's Legislature, the highest level of decision-making authority. Legislation is required to modify or rescind a fund balance commitment.
- **Assigned** – Balances that are constrained by management to be used for specific purposes, as authorized by the Hawaii Revised Statutes, but are not restricted or committed. For general fund only, encumbrance balances at fiscal year-end are classified as assigned.
- **Unassigned** – Residual balances that are not contained in the other classifications.

The State spends restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the State would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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The following table presents the State's fund balance by major function at June 30, 2017 (amounts expressed in thousands):

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Med-Quest Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Restricted for</b>					
Welfare	\$ -	\$ -	\$ -	\$ 9,584	\$ 9,584
Highways	-	57,582	-	-	57,582
Education	-	43,549	-	-	43,549
Debt service	-	-	-	35	35
	<u>-</u>	<u>101,131</u>	<u>-</u>	<u>9,619</u>	<u>110,750</u>
<b>Committed to</b>					
General government	-	-	-	316,747	316,747
Public safety	-	-	-	62,303	62,303
Highways	-	2,535	-	-	2,535
Conservation of natural resources	-	-	-	37,353	37,353
Health	-	-	-	183,209	183,209
Welfare	-	-	-	2,855	2,855
Culture and recreation	-	-	-	20,976	20,976
Urban development and housing	-	-	-	63,002	63,002
	<u>-</u>	<u>2,535</u>	<u>-</u>	<u>686,445</u>	<u>688,980</u>
<b>Assigned to</b>					
General government	28,245	-	-	67,798	96,043
Public safety	13,556	-	-	56,482	70,038
Highways	2,272	-	-	229,567	231,839
Conservation of natural resources	18,360	-	-	110,531	128,891
Health	75,438	-	-	-	75,438
Welfare	87,880	-	12,051	-	99,931
Education	157,664	-	-	167,801	325,465
Culture and recreation	4,243	-	-	4,610	8,853
Urban development and housing	3,987	-	-	279,696	283,683
Economic development	8,884	-	-	188,984	197,868
	<u>400,529</u>	<u>-</u>	<u>12,051</u>	<u>1,105,469</u>	<u>1,518,049</u>
<b>Unassigned</b>	<u>1,305,542</u>	<u>(103,201)</u>	<u>-</u>	<u>(13,679)</u>	<u>1,188,662</u>
Total	<u>\$ 1,706,071</u>	<u>\$ 465</u>	<u>\$ 12,051</u>	<u>\$ 1,787,854</u>	<u>\$ 3,506,441</u>

The following describes the purposes, by function, for the most significant fund balances:

- **Urban development and housing** – To develop and deliver Hawaiian home lands to native Hawaiians by identifying and assessing the needs of beneficiaries of the Hawaiian Homes Commission Act; to develop, market and manage lands not immediately needed; to develop lands for homesteading and income-producing purposes; and to develop waiting lists of applicants for homestead leases.
- **Highways** – To provide a safe, efficient, accessible and sustainable inter-modal transportation system that ensures the mobility of people and enhances and/or preserves economic prosperity and the quality of life. This is accomplished through planning, designing and supervising the construction and maintenance of the State Highway System.
- **Education** – For the public education system, to serve the community by developing the academic achievement, character and social-emotional well-being of the State's students to the fullest potential; to work with partners, families and communities to ensure that all students reach their aspirations from early-learning through college, career and citizenship. For the public charter commission, to authorize high-quality public charter schools throughout the State.
- **Health** – To administer programs designed to protect, preserve, care for, and improve the physical and mental health of the people of the State.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS' fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

**Nonexchange Transactions**

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

**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 administration's opinion is that adequate provision has been made for any adjustments that may result from such reviews.

**Fair Value Measurements**

The State measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value, as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- **Level 3** – Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

**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 \$1,000,000 per occurrence of property losses, the first \$4,000,000 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 \$200,000,000, except for terrorism, which is \$50,000,000 per occurrence. The annual aggregate limit for general liability losses is \$7,500,000 per occurrence and, for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35,000,000 per occurrence and \$39,000,000 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.

#### **Newly Issued Accounting Pronouncements**

##### ***GASB Statement No. 73***

During fiscal year 2017, the State implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The Statement establishes accounting and financial reporting requirements by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, and for the assets accumulated for purposes of providing those pensions. This Statement had no impact on the State's financial statements.

##### ***GASB Statement No. 74***

During fiscal year 2017, the State implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended. The Statement addresses the financial reports of defined benefit other postemployment benefit plans that are administered through trusts that meet specified criteria. This Statement did not have a material effect on the State's financial statements.

##### ***GASB Statement No. 75***

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The Statement will require governments to report a liability on the face of the financial statements for the other postemployment benefits that they provide. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The State expects that Statement No. 75 will have a material effect on its financial statements, although the amount of the effect has not been determined.

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***GASB Statement No. 77***

During fiscal year 2017, the State implemented GASB Statement No. 77, *Tax Abatement Disclosures*. The Statement requires governments that enter into tax abatement agreements to disclose information about the nature and magnitude of the tax abatements. This Statement did not have a material effect on the State's financial statements.

***GASB Statement No. 78***

During fiscal year 2017, the State implemented GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension that meet certain requirements. This Statement has no impact on the State's financial statements.

***GASB Statement No. 80***

During fiscal year 2017, the State implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement amends the blending requirements in GASB Statement No. 14. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. This Statement did not have a material effect on the State's financial statements.

***GASB Statement No. 81***

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The State is currently evaluating the impact that Statement No. 81 will have on its financial statements.

***GASB Statement No. 82***

During fiscal year 2017, the State implemented GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*.

The adoption of Statement No. 82 had no impact on the State's Governmental Fund financial statements, which continue to report expenditures using the modified-accrual basis of accounting. However, adoption has resulted in the restatement of the State's fiscal year 2016 Government-Wide financial statements to reflect the new calculation of deferred outflows of resources in accordance with the provisions of Statement No. 82. The restatement of Beginning Net Position for governmental activities and business-type activities of \$97,636,000 and \$689,000, respectively, were reported as of July 1, 2016. Refer to Note 11 for more information regarding the State's pension benefits.

***GASB Statement No. 83***

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this Statement are



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effective for reporting periods beginning after June 15, 2018. The State has not yet determined the effect this Statement will have on its financial statements.

***GASB Statement No. 84***

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The State has not yet determined the effect this Statement will have on its financial statements.

***GASB Statement No. 85***

The GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The State is currently evaluating the effect this Statement will have on its financial statements.

***GASB Statement No. 86***

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasement of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The State is currently evaluating the impact Statement No. 86 will have on its financial statements.

***GASB Statement No. 87***

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The State has not yet determined the effect this Statement will have on its financial statements.

**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, and repurchase agreements with federally-insured financial institutions.

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**Cash**

The State maintains bank accounts for various purposes at locations throughout the State and the nation. Bank deposits for the State Treasury 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) for the Primary Government as of June 30, 2017 was \$2,117,946,000 and \$833,213,000, respectively, and unrestricted cash for the Fiduciary Funds as of June 30, 2017 was \$289,116,000.

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to approximately \$3,068,915,000 at June 30, 2017. The entire amount 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 \$513,119,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized, and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

**Investments**

The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance (Budget and Finance). The pool's investment options are limited to investments listed in the HRS.

At the end of each year, Budget and Finance allocates the investment pool amount to each of the participants including those participants who are part of the Proprietary Funds and Fiduciary Funds. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The EUTF maintains a separate investment pool. The EUTF board is responsible for safekeeping these monies and has appointed an Investment Committee responsible for investing EUTF assets in compliance with HRS Sections 87A-24(2) and 88-119. Money is invested in accordance with EUTF's investment policy.

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The following table presents the fair value of the State's investments by level of input at June 30, 2017 (amounts expressed in thousands):

	Reported Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments – Primary government</b>				
Investments by fair value level				
U.S. government securities	\$ 2,307,970	\$ 552,527	\$ 1,755,443	\$ -
Mutual funds	37,127	37,127	-	-
Total investments by fair value level	2,345,097	\$ 589,654	\$ 1,755,443	\$ -
Investments measured at amortized cost				
Certificates of deposit	1,242,753			
Total investments	\$ 3,587,850			
<b>Investments – Fiduciary funds</b>				
Investments by fair value level				
Equity securities	\$ 413,652	\$ 413,652	\$ -	\$ -
U.S. government securities	306,888	47,645	259,243	-
Mutual funds	132,899	132,899	-	-
Derivatives	(148)	-	(148)	-
Total investments at fair value	853,291	\$ 594,196	\$ 259,095	\$ -
Investments at net asset value (NAV)				
Commingled funds				
Domestic equity	358,322			
International equity	377,205			
Domestic core fixed income	224,097			
Domestic inflation-linked fixed income	52,061			
Alternative investments	74,919			
Total investments at fair value	1,939,895			
Investments measured at amortized cost				
Certificates of deposit	107,164			
Total investments	\$ 2,047,059			
Invested securities lending collateral at NAV				
Money market fund	\$ 27,061			

**Cash and cash equivalents, certificates of deposit, and repurchase agreements** – The State considers all cash and investments with original maturities of three months or less to be cash equivalents. The carrying amounts reported in the Statement of Net Position for cash equivalents, certificates of deposit, and repurchase agreements are measured at amortized cost.

The following methods and assumptions were used by the State in estimating the fair value of its financial instruments:

- **Debt securities** – Debt securities held by the State consist of U.S. government obligations including U.S. Treasury bills and U.S. Treasury notes and bonds. The fair value of these investments are based on quoted prices in active markets or other observable inputs, including pricing matrices. These investments are categorized in either Level 1 or 2 of the fair value hierarchy.

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- **Mutual funds** – The mutual funds held by the State are open-ended mutual funds that are registered with the Securities Exchange Commission (SEC). The fair value of these mutual funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price. These investments are categorized in Level 1 of the fair value hierarchy.
- **Commingled funds** – Investments in commingled funds are valued at the NAV of units of a bank commingled investment vehicle. The NAV is based on the fair value of the underlying assets held by the fund less its liabilities.
- **Money market funds** – Investments in money market funds are valued at the NAV of the custodian bank liquid asset portfolio. NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the State's investments have fluctuated since June 30, 2017.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Required Redemption Notice</u>
<b>Investments measured at NAV</b>				
Commingled funds				
Domestic equity	\$ 358,322	None	Daily	Same as trade date
International equity	377,205	None	Daily	Trade date – 1
Domestic core fixed income	224,097	None	Daily	Trade date – 2
Domestic inflation-linked fixed income	52,061	None	Daily	Trade date – 2
Alternative investments	<u>74,919</u>	None	Monthly	N/A
Total investments measured at NAV	<u>\$ 1,086,604</u>			
Invested securities lending collateral				
Money market fund	<u>\$ 27,061</u>			Same as trade date

- **Domestic equity** – Northern Trust Russell 3000 Index Fund – Lending – primary objective is to approximate the risk and return characteristics of the Russell 3000 Index. This Index is commonly used to represent the broad U.S. equity market.
- **International equity** – Northern Trust Common All Country World Index (ACWI) EX-US Fund – Lending – primary objective is to provide investment results that approximate the overall performance of the MSCI All Country World ex-US Index.
- **Domestic core fixed income** – BlackRock U.S. Debt Index Fund B – primary objective is to provide investment results that correspond generally to the price and yield performance of Barclays US Aggregate Bond Index.
- **Domestic inflation-linked fixed income** – BlackRock U.S. Inflation-Linked Bond Fund B – primary objective is to maximize real return by investing in inflation-linked fixed income securities issued by the U.S. government.
- **Money market fund** – The Northern Trust Corporation Liquid Asset Portfolio is a money market fund that seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing exclusively in high quality money market investments.

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The following table presents the State's investments by maturity period at June 30, 2017 (amounts expressed in thousands):

	Reported Value	Maturity (in years)		
		Less than 1	1-5	>5
<b>Investments – Primary government</b>				
Certificates of deposit	\$ 1,242,753	\$ 1,187,710	\$ 55,043	\$ -
U.S. government securities	2,307,970	704,940	1,603,030	-
	3,550,723	\$ 1,892,650	\$ 1,658,073	\$ -
Mutual funds	37,127			
Total investments	<u>\$ 3,587,850</u>			
<b>Investments – Fiduciary funds</b>				
Certificates of deposit	\$ 107,164	\$ 102,418	\$ 4,746	\$ -
U.S. government securities	306,888	60,788	246,100	-
Derivatives	(148)	-	(148)	-
	413,904	\$ 163,206	\$ 250,698	\$ -
Equity securities	413,652			
Mutual funds	132,899			
Commingled funds	1,011,685			
Alternative investments	74,919			
Total investments	<u>\$ 2,047,059</u>			

**Interest Rate Risk**

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

**Credit Risk**

The State's general 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 maintaining a Triple-A rating.

**Custodial Risk**

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. 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.

***Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The EUTF's asset allocation and investment policy allows for active and passive investments in international securities. The foreign currency risk exposure to the State arises from the international equity investment holdings, including commingled funds, common stocks, and exchange traded funds.

***Securities Lending***

The EUTF participates in a securities lending program administered by its custodian bank, Northern Trust. Under this program, which is permissible by State statutes and the EUTF's investment policy, certain equity securities are lent to participating broker-dealers and banks (borrowers). In return, the EUTF receives cash, securities and/or letters of credit as collateral at 102% to 105% of the principal plus accrued interest for reinvestment. The collateral is marked to market daily. If the market value of the collateral falls below the minimum collateral requirements, additional collateral is provided. Accordingly, management believes that the EUTF has no credit risk exposure to borrowers because the amounts the EUTF owed the borrowers equaled or exceeded the amounts the borrowers owed the EUTF. The contract with the EUTF requires the custodian bank to indemnify the EUTF. In the event a borrower goes into default, the custodian bank will liquidate the collateral to purchase replacement securities. Any shortfall between the replacement securities cost and the collateral value is covered by the custodian bank. All securities loans can be terminated on demand within a period specified in each agreement by either the EUTF or the borrowers.

Cash collateral is invested in a separate account by the custodian bank using approved lender's investment guidelines. As such, maturities of the investments made with cash collateral generally do not match the maturities of the securities loans. The EUTF does not impose any restrictions on the amount of loans the bank custodian makes on behalf of the EUTF. The securities lending program in which the EUTF participates only allows pledging or selling securities in the case of borrower default.

At June 30, 2017, the total securities lent for collateral amounted to \$81,495,000. The total cash and noncash collateral received amounted to \$27,061,000 and \$81,122,000, respectively.

Each of the four commingled funds held in the EUTF investment pool participates in securities lending.

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**3. Capital Assets**

For the fiscal year ended June 30, 2017, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	<b>Governmental Activities</b>			<b>Balance at June 30, 2017</b>
	<b>Balance at July 1, 2016</b>	<b>Additions</b>	<b>Deductions</b>	
<b>Capital assets not being depreciated</b>				
Land and land improvements	\$ 2,308,273	\$ 3,137	\$ (793)	\$ 2,310,617
Construction in progress	<u>1,080,107</u>	<u>538,047</u>	<u>(432,939)</u>	<u>1,185,215</u>
Total capital assets not being depreciated	<u>3,388,380</u>	<u>541,184</u>	<u>(433,732)</u>	<u>3,495,832</u>
<b>Capital assets being depreciated</b>				
Infrastructure	9,576,842	177,103	(33,407)	9,720,538
Buildings and improvements	4,601,795	368,031	(5,014)	4,964,812
Equipment	599,392	111,102	(14,685)	695,809
Intangible assets – software	<u>155,615</u>	<u>3,559</u>	<u>-</u>	<u>159,174</u>
Total capital assets being depreciated	<u>14,933,644</u>	<u>659,795</u>	<u>(53,106)</u>	<u>15,540,333</u>
Less: Accumulated depreciation and amortization				
Infrastructure	(5,869,542)	(229,295)	-	(6,098,837)
Buildings and improvements	(2,614,718)	(163,862)	2,661	(2,775,919)
Equipment	(434,168)	(67,266)	12,960	(488,474)
Intangible assets – software	<u>(56,757)</u>	<u>(23,960)</u>	<u>-</u>	<u>(80,717)</u>
Total accumulated depreciation and amortization	<u>(8,975,185)</u>	<u>(484,383)</u>	<u>15,621</u>	<u>(9,443,947)</u>
Total capital assets, net	<u>\$ 9,346,839</u>	<u>\$ 716,596</u>	<u>\$ (471,217)</u>	<u>\$ 9,592,218</u>
	<b>Business-type Activities</b>			
	<b>Balance at July 1, 2016</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2017</b>
<b>Capital assets not being depreciated</b>				
Land and land improvements	\$ 641,376	\$ 1,812	\$ (1,029)	\$ 642,159
Construction in progress	<u>880,554</u>	<u>420,272</u>	<u>(144,731)</u>	<u>1,156,095</u>
Total capital assets not being depreciated	<u>1,521,930</u>	<u>422,084</u>	<u>(145,760)</u>	<u>1,798,254</u>
<b>Capital assets being depreciated</b>				
Land and improvements	1,372,043	69,049	-	1,441,092
Buildings and improvements	2,412,241	70,188	-	2,482,429
Equipment	<u>327,337</u>	<u>6,949</u>	<u>(379)</u>	<u>333,907</u>
Total capital assets being depreciated	<u>4,111,621</u>	<u>146,186</u>	<u>(379)</u>	<u>4,257,428</u>
Less: Accumulated depreciation				
Land and improvements	(883,960)	(39,304)	-	(923,264)
Buildings and improvements	(1,330,625)	(73,832)	-	(1,404,457)
Equipment	<u>(248,690)</u>	<u>(18,966)</u>	<u>379</u>	<u>(267,277)</u>
Total accumulated depreciation	<u>(2,463,275)</u>	<u>(132,102)</u>	<u>379</u>	<u>(2,594,998)</u>
Total capital assets, net	<u>\$ 3,170,276</u>	<u>\$ 436,168</u>	<u>\$ (145,760)</u>	<u>\$ 3,460,684</u>

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Depreciation expense for the fiscal year ended June 30, 2017, was charged to functions/ programs of the Primary Government as follows (amounts expressed in thousands):

<b>Governmental activities</b>	
Highways	\$ 212,335
Lower education	121,629
General government	45,478
Welfare	25,979
Urban redevelopment and housing	24,231
Public safety	20,524
Conservation of natural resources	19,615
Health	6,840
Economic development and assistance	4,440
Culture and recreation	3,312
	<u>484,383</u>
Total depreciation expense – governmental activities	<u>\$ 484,383</u>
 <b>Business-type activities</b>	
Airports	\$ 100,260
Harbors	30,869
EUTF	774
DWTLF	197
WPCF	2
	<u>132,102</u>
Total depreciation expense – business-type activities	<u>\$ 132,102</u>

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

All issues contain call provisions except Series DL, issued May 20, 2008; Series DO, issued December 16, 2008; Series DR, issued June 23, 2009; Series DT, issued November 24, 2009; Series DY, issued February 18, 2010; Series EL, issued November 21, 2013; Series EW and EX, issued October 29, 2015; Series FJ, issued October 13, 2016; and Series FM, issued May 24, 2017. Stated interest rates range from 0.40% to 5.53%.

During the fiscal year 2017, the State issued two separate offerings of general obligation bonds.

- On October 13, 2016, the State issued \$375,000,000 of general obligation bonds of 2016 Series FG, \$382,005,000 of general obligation refunding bonds of 2016 Series FH and FI, and \$25,000,000 of taxable general obligation bonds of 2016 Series FJ.
- On May 24, 2017, the State issued \$575,000,000 of general obligation bonds of 2017 Series FK, \$234,755,000 of general obligation refunding bonds of 2017 Series FL, FM and FN, and \$45,000,000 of taxable general obligation bonds of 2017 Series FO and FP.



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All new issues except Series FP were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method. The bonds within Series FO are subject to optional redemption. The following bonds are subject to optional redemption with restrictions: within Series FG, FH and FI that mature on or after October 1, 2026; within Series FK and FP that mature on or after May 1, 2027; and within Series FN that matures on or after October 1, 2027.

Refunding Series FH, FI, FL, FM and FN have interest rates of 2.0% to 5.0% and were used to advance refund \$629,810,000 of certain general obligation bonds previously issued. The net proceeds of \$751,991,000 (including premiums of \$135,231,000) related to the issuance of Series FH, FI, FL, FM and FN were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the previously issued outstanding general obligation bonds series DQ, DZ, EE, EH and EO. As a result, these series or portions of these series are considered to be defeased and the related liabilities have been removed from the Government-Wide financial statements. Due to the advanced refunding, the State decreased its total debt service payments over the next 17 years by \$47,724,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$40,325,000.

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, 2017, \$1,524,585,000 of bonds outstanding is considered defeased. At June 30, 2017, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	\$ 6,423,965
Noncallable	<u>466,455</u>
Total general obligation bonds outstanding	6,890,420
Add: unamortized bond premium	770,784
Less: Amount recorded as a liability of proprietary funds – Harbors	<u>(25,377)</u>
Amount recorded in the governmental activities of the primary government	<u>\$ 7,635,827</u>

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A summary of general obligation bonds outstanding by series as of June 30, 2017, is as follows (amounts expressed in thousands):

<u>Series</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Original Amount of Issue</u>	<u>Outstanding Amount</u>
DK	May 20, 2008	4.000%–5.000%	May 1, 2018–2028	\$ 375,000	\$ 13,860
DL	May 20, 2008	5.000%	May 1, 2018	29,010	4,590
DN	December 16, 2008	4.250%–5.000%	August 1, 2017–2019	100,000	11,870
DO	December 16, 2008	4.000%–5.000%	August 1, 2017–2018	101,825	28,850
DQ	June 23, 2009	3.600%–5.000%	June 1, 2019–2026	500,000	43,805
DR	June 23, 2009	4.000%–5.000%	June 1, 2018–2019	225,410	68,650
DS	November 5, 2009	0.400%–1.450%	September 15, 2017–2024	32,000	23,480
DT	November 24, 2009	3.000%–5.000%	November 1, 2017–2019	204,140	109,205
DX	February 18, 2010	4.090%–5.530%	February 1, 2018–2030	500,000	430,655
DY	February 18, 2010	4.000%–5.000%	February 1, 2018–2020	221,625	118,115
DZ	December 7, 2011	3.500%–5.000%	December 1, 2017–2031	800,000	153,155
EA	December 7, 2011	2.250%–5.000%	December 1, 2017–2023	403,455	360,950
EE	December 4, 2012	1.000%–5.000%	November 1, 2017–2032	444,000	312,765
EF	December 4, 2012	5.000%	November 1, 2017–2024	396,990	396,990
EG	December 4, 2012	1.000%–3.625%	November 1, 2017–2032	26,000	26,000
EH	November 21, 2013	4.000%–5.000%	August 1, 2018–2033	635,000	557,580
EL	November 21, 2013	1.000%–5.000%	August 1, 2017–2023	50,860	50,860
EM	November 21, 2013	1.950%–4.800%	August 1, 2018–2033	25,000	25,000
EN	November 21, 2013	1.950%–4.800%	August 1, 2018–2033	29,795	29,795
EO	November 25, 2014	3.000%–5.000%	August 1, 2019–2034	575,000	563,030
EP	November 25, 2014	5.000%	August 1, 2019–2026	209,015	209,015
EQ	November 25, 2014	2.035%–3.915%	August 1, 2019–2034	25,000	25,000
ES	November 25, 2014	1.231%	August 1, 2017	193,880	97,415
ET	October 29, 2015	2.000%–5.000%	October 1, 2018–2035	190,000	190,000
EU	October 29, 2015	2.000%–3.500%	October 1, 2018–2035	35,000	35,000
EW	October 29, 2015	5.000%	October 1, 2018	34,950	34,950
EX	October 29, 2015	2.000%–4.000%	October 1, 2019–2025	25,035	25,035
EY	October 29, 2015	5.000%	October 1, 2020–2027	212,120	212,120
EZ	October 29, 2015	5.000%	October 1, 2019–2028	215,590	215,590
FA	October 29, 2015	1.330%–4.400%	October 1, 2018–2035	25,000	25,000
FB	April 14, 2016	3.000%–5.000%	April 1, 2019–2036	500,000	500,000
FC	April 14, 2016	1.250%–1.750%	April 1, 2018–2021	25,000	20,110
FE	April 14, 2016	3.000%–5.000%	October 1, 2019–2028	219,690	219,690
FF	April 14, 2016	1.309%–2.902%	October 1, 2019–2028	119,730	119,730
FG	October 13, 2016	3.000%–5.000%	October 1, 2019–2036	375,000	375,000
FH	October 13, 2016	3.000%–5.000%	October 1, 2021–2031	379,295	379,295
FI	October 13, 2016	2.000%–5.000%	October 1, 2021–2033	2,710	2,710
FJ	October 13, 2016	1.000%–1.921%	October 1, 2018–2022	25,000	25,000
FK	May 24, 2017	2.000%–5.000%	May 1, 2020–2037	575,000	575,000
FM	May 24, 2017	2.000%	October 1, 2017	1,200	1,200
FN	May 24, 2017	5.000%	October 1, 2021–2031	229,355	229,355
FO	May 24, 2017	1.850%–2.250%	May 1, 2020–2021	37,500	37,500
FP	May 24, 2017	1.850%–3.940%	May 1, 2020–2037	7,500	7,500
				<b>\$ 6,890,420</b>	

The general obligation bonds outstanding financed the Hawaiian Home 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.

**State of Hawaii**  
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A summary of the general obligation bond premium activity for fiscal year 2017 is as follows (amounts expressed in thousands):

<b>Balance – July 1, 2016</b>	\$ 659,106
GO bond series FG – FO	277,336
Defeased bond series DQ, DZ, EE, DH, DO	(57,187)
Current-year amortization	<u>(108,471)</u>
<b>Balance – June 30, 2017</b>	<b><u>\$ 770,784</u></b>

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

<b>Fiscal Year</b>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 410,323	\$ 299,536	\$ 709,859
2019	448,502	285,849	734,351
2020	478,063	264,320	742,383
2021	434,604	243,496	678,100
2022	431,592	224,071	655,663
2023–2027	2,098,272	820,741	2,919,013
2028–2032	1,699,452	366,260	2,065,712
2033–2037	864,235	73,187	937,422
	<u>\$ 6,865,043</u>	<u>\$ 2,577,460</u>	<u>\$ 9,442,503</u>

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

<b>Fiscal Year</b>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,122	\$ 1,258	\$ 3,380
2019	2,228	1,153	3,381
2020	2,337	1,044	3,381
2021	2,451	930	3,381
2022	2,573	808	3,381
2023–2027	12,773	1,986	14,759
2028	893	44	937
	<u>\$ 25,377</u>	<u>\$ 7,223</u>	<u>\$ 32,600</u>

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, 2017 was \$548,701,000.

At June 30, 2017, general obligation bonds authorized but unissued were approximately \$2,207,279,000.

**State of Hawaii**  
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**5. Revenue Bonds Payable**

**Governmental Activities**

Revenue bonds are payable from and collateralized by each Department's revenues generated from certain capital improvement projects. On September 8, 2016, the Department of Transportation – Highways Division (Highways) issued \$103,395,000 in State of Hawaii Highway Revenue Bonds of 2016, Series A, with interest rates ranging from 1.25% to 5.0% to provide funds for certain highway capital improvement projects. The bonds are payable annually on January 1 through 2036.

On September 8, 2016, Highways issued \$101,090,000 in State of Hawaii Highway Revenue Bonds of 2016, Series B, with interest rates ranging from 2.0% to 5.0% to refund certain outstanding Highway Revenue Bonds. After an initial payment on January 1, 2017, the bonds are payable annually on January 1, commencing 2021 through 2030.

On November 13, 2014, the DBEDT issued \$150,000,000 in State of Hawaii Green Energy Market Securitization Bonds of 2014, Series A, to provide funds for environmentally beneficial projects. The Series A is comprised of Tranche A-1 for \$50,000,000 and Tranche A-2 for \$100,000,000. The interest rate for Tranche A-1 is 1.467%, with bonds payable semi-annually on January 1 and July 1 through 2020. The interest rate for Tranche A-2 is 3.242%, with bonds payable semi-annually beginning July 1, 2020 through January 1, 2029. Both tranches have a final maturity date which is two years later than the scheduled final payment date to allow for any final true-ups for balances owed.

On August 14, 2014, Highways issued \$103,375,000 in State of Hawaii Highway Revenue Bonds of 2014, Series A, with interest rates ranging from 2.0% to 5.0% to provide funds for certain highway capital improvement projects. The bonds are payable annually on January 1 through 2034.

On August 14, 2014, Highways issued \$32,285,000 in State of Hawaii Highway Revenue Bonds of 2014, Series B, with interest rates ranging from 3.0% to 5.0% to advance refund \$36,195,000 of certain highway revenue bonds previously issued. The bonds are payable annually January 1 through 2026.

On August 14, 2014, Highways issued \$28,020,000 in State of Hawaii Highway Revenue Bonds of 2014, Series C, with interest rates ranging from 0.4% to 1.6% to advance refund \$26,435,000 of certain highway revenue bonds previously issued. The bonds are payable annually on January 1 through 2018.

On December 15, 2011, Highways issued \$112,270,000 in State of Hawaii Highway Revenue Bonds of 2011, Series A, with interest rates ranging from 0.75% to 5.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2032.

On December 15, 2011, Highways issued \$5,095,000 in State of Hawaii Highway Revenue Bonds of 2011, Series B, with an interest rate of 4.0% to advance refund \$5,400,000 of certain outstanding highway revenue bonds previously issued. The bond is payable on January 1, 2023.

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On April 2, 2009, the State of Hawaii Department of Hawaiian Home Lands (DHHL) issued \$42,500,000 in Revenue Bonds, Series 2009, with interest rates ranging from 2.0% to 6.0% to finance the construction of certain DHHL capital improvement projects. The bonds are payable annually on April 1 through 2039.

On December 17, 2008, Highways issued \$125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4.0% to 6.0% to finance certain highway capital improvement projects and related projects. The bonds are payable annually on January 1 through 2029.

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 3.0% to 5.25% to advance refund \$128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable annually on July 1 through 2021.

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 advance 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 ranging from 4.5% to 5.5% and mature on July 1, 2017 and July 1, 2018.

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 Bond of 2011 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.

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The following is a summary of the State's revenue bonds issued and outstanding at June 30, 2017 (amounts expressed in thousands):

<b>Series</b>	<b>Date of Issue</b>	<b>Interest Rates</b>	<b>Maturity Dates</b>	<b>Original Amount of Issue</b>	<b>Outstanding Amount</b>
<b>Highways</b>					
1998	July 1, 1998	5.500%	July 1, 2017–2018	\$ 94,920	\$ 27,580
2005 B	March 15, 2005	5.25	July 1, 2016–2021	123,915	27,630
2008	December 17, 2008	5.00%–5.25%	January 1, 2018–2029	125,175	17,475
2011A	December 15, 2011	2.00%–5.00%	January 1, 2018–2032	112,270	52,160
2011B	December 15, 2011	4.00%	January 1, 2023	5,095	5,095
2014A	August 14, 2014	4.00%–5.00%	January 1, 2018–2034	103,375	93,990
2014B	August 14, 2014	4.00%–5.00%	January 1, 2018–2026	32,285	29,635
2014C	August 14, 2014	1.6	January 1, 2018	28,020	6,935
2016A	September 8, 2016	1.25%–5.00%	January 1, 2018–2036	103,395	102,225
2016B	September 8, 2016	2.00%–5.00%	January 1, 2021–2030	101,090	100,270
<b>DHHL</b>					
2009	April 2, 2009	4.625%–6.00%	April 1, 2018–2039	42,500	36,640
<b>DBEDT</b>					
2014A-A1	November 13, 2014	1.467%	July 1, 2022	50,000	31,466
2014A-A2	November 13, 2014	3.242%	January 1, 2031	100,000	100,000
					631,101
Add: Unamortized bond premium					61,641
					\$ 692,742

A summary of the revenue bond premium activity for fiscal year 2017 is as follows (amounts expressed in thousands):

	<b>Revenue Bonds</b>
<b>Balance – July 1, 2016</b>	\$ 28,872
Current-year additions	43,096
Defeased bonds	(2,473)
Current-year amortization	(7,854)
<b>Balance – June 30, 2017</b>	<b>\$ 61,641</b>

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

<b>Fiscal Year</b>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 51,196	\$ 26,975	\$ 78,171
2019	53,351	24,904	78,255
2020	40,669	23,046	63,715
2021	41,711	21,388	63,099
2022	39,366	19,716	59,082
2023–2027	192,436	75,052	267,488
2028–2032	151,412	33,570	184,982
2033–2037	55,440	7,853	63,293
2038–2039	5,520	502	6,022
	<u>\$ 631,101</u>	<u>\$ 233,006</u>	<u>\$ 864,107</u>

**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% of principal.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2017 (amounts expressed in thousands):

<b>Series</b>	<u>Interest Rates</u>	<u>Final Maturity Date (July 1)</u>	<u>Original Amount of Issue</u>	<u>Outstanding Amount</u>
2010A, refunding	2.00%–5.25%	2039	\$ 478,980	\$ 477,125
2010B, refunding	3.00%–5.00%	2020	166,000	84,770
2011, refunding	2.00%–5.00%	2024	300,885	208,605
2015A, non-refunding	4.125%–5.00%	2045	235,135	235,135
2015B, non-refunding	4.00%	2045	9,125	9,125
			<u>\$ 1,190,125</u>	<u>1,014,760</u>
Add: Unamortized premium				29,261
Less: Unamortized discount				(52)
				<u>1,043,969</u>
Less: Current portion				(38,935)
Noncurrent portion				<u>\$ 1,005,034</u>

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**Airports Special Facility Leases and Revenue Bonds**

Airports entered into two special facility lease agreements with Continental Airlines, Inc. (Continental) in November 1997 and July 2000. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of \$25,255,000 and \$16,600,000, respectively. The \$16,600,000 special facility revenue bond was called in full on May 18, 2015. The remaining bond is payable solely from and collateralized solely by certain rentals and other monies derived from the special facility.

**\$25,255,000 Issue**

The bonds bear interest at 5.625% per annum, and are subject to redemption on or after November 15, 2007 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 of \$611,000 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.

Special facility revenue bonds payable at June 30, 2017 consisted of \$21,725,000, and is classified as noncurrent.

The special facility lease is accounted for and recorded as a direct financing lease. 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% to 100% of face value.

The following is a summary of the Harbors' revenue bonds issued and outstanding as of June 30, 2017 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current		Total	Noncurrent
				Principal Due July 1, 2017	Due January 1, 2018		
2007	July 1, 2027	5.25%	\$ 51,645	\$ 2,215	\$ -	\$ 2,215	\$ 22,315
2010	July 1, 2040	3.00%–5.75%	201,390	7,165	-	7,165	165,770
2013	July 1, 2029	3.25%	23,615	1,050	-	1,050	19,720
2016	January 1, 2031	1.99%–2.89%	91,235	-	5,540	5,540	85,695
			<u>\$ 367,885</u>	<u>\$ 10,430</u>	<u>\$ 5,540</u>	15,970	293,500
Add: Unamortized premium						65	213
						<u>\$ 16,035</u>	<u>\$ 293,713</u>



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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):

<b>Fiscal Year</b>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 51,196	\$ 64,523	\$ 115,719
2019	57,495	61,951	119,446
2020	59,930	59,483	119,413
2021	61,960	56,603	118,563
2022	64,870	54,143	119,013
2023–2027	272,355	225,136	497,491
2028–2032	198,505	168,251	366,756
2033–2037	184,965	123,281	308,246
2038–2042	220,380	69,828	290,208
2043–2046	174,299	17,394	191,693
	<u>\$ 1,345,955</u>	<u>\$ 900,593</u>	<u>\$ 2,246,548</u>

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the twelve-month and six-month periods, respectively, preceding the date on which the payments are due.

**Revenue Bonds Authorized, but Unissued**

At June 30, 2017, revenue bonds authorized, but unissued, were approximately \$5,239,740,000.

**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, 2017 amounted to approximately \$1,364,719,000. At June 30, 2017, special purpose revenue bonds of \$1,126,029,000 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, 2017.

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**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):

	<b>Governmental Activities</b>				
	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2017</b>	<b>Due Within One Year</b>
General obligation bonds payable	\$ 6,294,325	\$ 1,636,760	\$ (1,066,042)	\$ 6,865,043	\$ 410,323
Add: Unamortized premium	659,106	277,336	(165,658)	770,784	102,553
Total general obligation bonds payable	6,953,431	1,914,096	(1,231,700)	7,635,827	512,876
Revenue bonds payable	586,248	204,485	(159,632)	631,101	51,196
Add: Unamortized premium	28,872	43,096	(10,327)	61,641	7,545
Total revenue bonds payable	615,120	247,581	(169,959)	692,742	58,741
Accrued vacation payable	222,727	106,917	(100,645)	228,999	82,699
Reserve for losses and loss adjustment costs	166,565	69,028	(37,274)	198,319	45,088
Net pension liability	4,168,754	2,392,143	(220,992)	6,339,905	-
Other postemployment benefit liability	3,742,327	608,100	(549,624)	3,800,803	-
Capital lease obligations	149,477	-	(5,855)	143,622	10,323
Total	<u>\$ 16,018,401</u>	<u>\$ 5,337,865</u>	<u>\$ (2,316,049)</u>	<u>\$ 19,040,217</u>	<u>\$ 709,727</u>
	<b>Business-type Activities</b>				
	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2017</b>	<b>Due Within One Year</b>
General obligation bonds payable, net	\$ 27,400	\$ -	\$ (2,023)	\$ 25,377	\$ 2,122
Revenue bonds payable	1,397,145	91,235	(142,425)	1,345,955	54,905
Add: Unamortized premium, net	32,835	1	(3,349)	29,487	65
Total revenue bonds payable	1,429,980	91,236	(145,774)	1,375,442	54,970
Accrued vacation and retirement benefits payable	14,434	6,142	(5,603)	14,973	5,634
Reserve for losses and loss adjustment costs	4,851	2,078	(2,027)	4,902	1,669
Net pension liability	145,493	88,212	(13,842)	219,863	-
Other postemployment benefit liability	108,431	21,667	(12,197)	117,901	-
Capital lease obligations	179,985	78,466	(5,645)	252,806	7,063
Prepaid airport use charge fund	10,350	6,553	-	16,903	-
Loan payable	34,910	41,090	-	76,000	-
Total	<u>\$ 1,955,834</u>	<u>\$ 335,444</u>	<u>\$ (187,111)</u>	<u>\$ 2,104,167</u>	<u>\$ 71,458</u>

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's governmental funds. Approximately 80%, 19% 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, 2017.

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**7. Interfund Receivables and Payables**

Interfund receivables and payables consisted of the following at June 30, 2017 (amounts expressed in thousands):

	<u>Due From</u>	<u>Due To</u>
<b>Governmental Funds</b>		
General Fund		
Special Revenue Funds	\$ 41,260	\$ -
Med-Quest Special Revenue Fund	136,010	-
Proprietary Fund	20	-
Debt Service Fund	-	35
	<u>177,290</u>	<u>35</u>
Capital Projects Fund		
Proprietary Fund	<u>1,597</u>	<u>-</u>
Med-Quest Special Revenue Fund		
General Fund	<u>-</u>	<u>136,010</u>
Nonmajor Governmental Funds		
General Fund	<u>35</u>	<u>41,260</u>
<b>Proprietary Fund</b>		
Harbors	<u>-</u>	<u>1,617</u>
	<u>\$ 178,922</u>	<u>\$ 178,922</u>

The interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occurred, transactions are recorded, and payment between funds are made.

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**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 between funds occur. For the fiscal year ended June 30, 2017, transfers by fund were as follows (amounts expressed in thousands):

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Governmental Funds</b>		
General Fund		
Med-Quest Special Revenue Fund	\$ 118,472	\$ 3,675
Capital Projects Fund	-	25,829
Nonmajor Governmental Funds	<u>78,647</u>	<u>1,023,968</u>
	<u>197,119</u>	<u>1,053,472</u>
Capital Projects Fund		
General Fund	25,829	-
Nonmajor Governmental Funds	<u>95,183</u>	<u>3,509</u>
	<u>121,012</u>	<u>3,509</u>
Med-Quest Special Revenue Fund		
General Fund	3,675	118,472
Nonmajor Governmental Funds	<u>513</u>	<u>4,856</u>
	<u>4,188</u>	<u>123,328</u>
Nonmajor Governmental Funds		
General Fund	1,023,968	78,646
Capital Projects Fund	3,509	95,183
Med-Quest Special Revenue Fund	4,856	513
Other Nonmajor Governmental Funds	<u>90,279</u>	<u>90,280</u>
	<u>1,122,612</u>	<u>264,622</u>
	<u>\$ 1,444,931</u>	<u>\$ 1,444,931</u>

The General Fund transferred approximately \$703,369,000 to the Nonmajor Governmental Funds for debt service payments and approximately \$324,274,000 to subsidize various Special Revenue Funds' programs, and approximately \$25,829,000 to the Capital Projects Fund to finance capital projects. Approximately \$95,183,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

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**9. Leases**

**Lease Commitments**

**Governmental Activities**

The State leases office facilities and equipment under various operating leases expiring through fiscal 2027. Future minimum lease commitments for noncancelable operating leases as of June 30, 2017, were as follows (amounts expressed in thousands):

<b>Fiscal Year</b>		
2018	\$	18,180
2019		15,469
2020		12,226
2021		7,514
2022		4,453
2023–2027		2,229
Total future minimum lease payments	\$	<u>60,071</u>

Rent expenditures for operating leases for the fiscal year ended June 30, 2017 amounted to approximately \$38,253,000.

An equipment lease purchase agreement between the Department of Transportation Highways Division and Johnson Controls, Inc. was entered into on July 8, 2015 to fund the construction, acquisition and installation of energy conservation systems throughout the State. The proceeds of \$60,286,091 were deposited into an acquisition fund held in trust by an acquisition fund custodian to provide for future payments as requested by the Highways Division. Payments commenced on August 1, 2017 and continue through August 1, 2031 at an interest rate of 2.63%.

An equipment lease purchase agreement between DAGS and Banc of America Public Capital Corp. was entered into on August 1, 2013, to fund the construction, acquisition and installation of energy conservation systems throughout the State. The proceeds of \$18,835,000 were deposited in an acquisition fund held in trust by an acquisition fund custodian to provide for future payments as requested by the State. Payments commenced on March 20, 2014 and continue through September 20, 2033 at an interest rate of 3.63%.

On April 14, 2011, an equipment lease purchase agreement between the Department of Public Safety and Capital One Public Funding, LLC was entered into, to fund the acquisition and installation of energy conservation equipment at the Halawa Correctional Facility and Oahu Community Correctional Center. An escrow agent to provide for future vendor payments as requested by the State deposited the proceeds of \$25,512,000 in an escrow fund. Payments commenced on May 1, 2012 and continue through November 1, 2030 at an interest rate of 5.021%.

An equipment lease purchase agreement between the DAGS and Capital One Public Funding, LLC was entered into on September 3, 2009, to fund the acquisition and installation of energy conservation equipment at various State buildings in the downtown Honolulu district. The proceeds of \$12,377,000 were deposited in an escrow fund by an escrow agent to provide for future vendor payments as requested by the State. Payments commenced on June 1, 2010 and continue through June 1, 2026 at an interest rate of 5.389%.

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On November 5, 2009, the State issued \$41,120,000 in Certificates of Participation (COPS) 2009 Series A to fully refund \$47,185,000 of the 1998 Series A Certificates and the 2000 Series A Certificates, which proceeds were used to purchase the Kapolei State Office Building and the Capitol District Building. The net proceeds of \$43,490,000 (including a premium of \$2,876,000 and after-payment of \$503,000 in underwriting fees) were deposited to the Depository Trust Company in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding COPS. 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. Due to the advance refunding, the State reduced its total debt service payments over the next ten years by \$7,487,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7,061,000. Payments commenced on May 1, 2010, and continue through May 1, 2020 with interest rates ranging from 2.0% to 5.0%. The 2009 Series A Certificates are subject to prepayment prior to their maturity dates in the event of a casualty loss or governmental taking of all or a portion of the premises subject to the Leases, but are not otherwise subject to prepayment prior to maturity.

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%. 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):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 10,323	\$ 5,582	\$ 15,905
2019	7,165	4,864	12,029
2020	7,974	4,575	12,549
2021	6,691	4,257	10,948
2022	7,257	3,992	11,249
2023–2027	45,612	15,134	60,746
2028–2032	55,695	5,950	61,645
2033–2034	2,905	107	3,012
Total future minimum lease payments	\$ 143,622	\$ 44,461	\$ 188,083

Capital assets acquired under these capital leases are as follows (amounts expressed in thousands):

<b>Asset type</b>	
Buildings and improvements	\$ 65,620
Equipment	117,010
Total assets	\$ 182,630

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**Business-Type Activities**

***Airports – Lease Revenue Certificates of Participation***

Airports entered into a lease agreement with Johnson Controls, Inc. in December 2013. The costs relating to the lease and installation of certain equipment to implement the energy performance contract between Airports and Johnson Controls, Inc. was financed by lease revenue COPS issued by Airports in the amount of \$167,740,000 at interest rates ranging from 3.00% to 5.25%.

On April 13, 2016, Airports entered into a lease agreement with Johnson Controls, Inc. amending the Energy Performance Contract dated December 19, 2013 to finance improvements to Daniel K. Inouye International Airport’s cooling infrastructure. The costs relating to the lease and installation of certain equipment to implement the third amendment to the Energy Performance Contract between Airports and Johnson Controls, Inc. was financed by lease revenue COPS issued by Airports in the amount of \$8,056,521 at an interest rate of 1.74%.

On March 31, 2017, Airports entered into a lease agreement with Johnson Controls, Inc. amending the Energy Performance Contract dated December 19, 2013 to finance improvements to the lighting infrastructure at multiple airports. The costs relating to the purchase and installation of certain equipment to implement the fourth amendment to the Energy Performance Contract between Airports and Johnson Controls, Inc. was financed by lease revenue COPS issued by Airports in the amount of \$51,473,427 at an interest rate of 2.87%.

The lease revenue COPS are payable from revenue derived by Airports from the ownership and operation of the Airports system and the receipts from aviation fuel taxes imposed by the State. The COPS represent participation in equipment lease rent payments made by the Department of Transportation. Lease rent payments to holders of the COPS are payable from revenues and aviation fuel taxes, subordinate in right of payments of debt service on bonds.

At June 30, 2017, the outstanding balance of the lease revenue COPS and the unamortized premium were approximately \$222,525,000 and \$3,288,000, respectively. Future lease rent payments for the lease revenue COPS as of June 30, 2017 are as follows (amounts expressed in thousands):

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 6,346	\$ 9,544	\$ 15,890
2019	7,331	9,389	16,720
2020	10,301	9,040	19,341
2021	12,116	8,551	20,667
2022	13,753	7,982	21,735
2023–2027	95,712	28,367	124,079
2028–2032	68,697	5,460	74,157
2033–2034	8,269	249	8,518
	<b>\$ 222,525</b>	<b>\$ 78,582</b>	<b>\$ 301,107</b>

## **Lease Rentals**

### ***Airports – Airport-Airline Lease Agreement***

The DOT 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. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-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). Net excess payments for fiscal years 1996 through 2017 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 approximately \$2,156,000 for fiscal year 2017.



***Airports – System Rates and Charges***

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

- Landing fees amounted to approximately \$79,571,000 for fiscal year 2017. Airport landing fees are shown, net of aviation fuel tax credits of approximately \$1,713,000, for fiscal year 2017 on the statement of revenues, expenses and changes in net position, which resulted in net airport landing fees of approximately \$77,858,000 for fiscal year 2017. Airport landing fees are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. Airport interisland landing fees for signatory airlines were set at 45% of the airport landing fees for overseas flights for fiscal year 2017, and are scheduled to increase 1% annually until it reaches 100%.
- Nonexclusive joint-use premise charges for terminal rentals amounted to approximately \$70,655,000 for fiscal year 2017. 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 enplaning or deplaning passenger.
- Exclusive use premise charges amounted to approximately \$55,490,000 for fiscal year 2017, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to approximately \$30,119,000 for fiscal year 2017.
- Airports system support charges amounted to \$0 for fiscal year 2017, and were established to recover all remaining residual costs of the Airports system. Airports system support charges were established by Administrative Rules for nonsignatory airlines. Those rates 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 Airports system support charges for overseas flights.

***Airports – Other Operating Leases***

Airports leases certain 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 minimum guarantee. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2017 was approximately \$80,726,000.

In fiscal years 2006 and 2013, Airports converted certain past-due amounts from two lessees and a lessee, respectively, into promissory notes. The notes bear interest at rates ranging up to 5.0% and are due over periods ranging from 0 months to 9 years. The balance remaining at June 30, 2017 is \$74,000.

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 Kahului retail concession, accounted for approximately 20% of total concession fees revenues for the fiscal year ended June 30, 2017.

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DFS was awarded a ten-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 2017. On August 31, 2010, the lease was amended under provisions of Act 33, 2009, Hawaii Session Laws 883. The amended 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, 2011, the minimum annual guarantee rent was \$38 million and the percentage rent was as follows: (1) for total concession receipts greater than \$155 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, 2011 to May 31, 2017, the minimum annual guarantee rent was equal to 85% of the total rent paid for the fourth year of the lease term. Percentage rent during this period was calculated the same as during the first four years of the lease term.

Effective October 31, 2014, the in-bond concession lease agreement was amended and the lease was extended through May 31, 2027. The amended lease contract provides (1) for the period from June 1, 2017 through May 31, 2019, \$40 million, (2) for the period of June 1, 2019 through May 31, 2020, \$47.5 million, (3) for the period June 1, 2020 through May 31, 2021, 85% of the actual annual fee paid and payable (either minimum annual guarantee (MAG) rent or percentage rent) for the previous year, (4) for the period of June 1, 2021 through May 31, 2022, the same as the previous year, (5) for the period of June 1, 2022 through May 31, 2023, 85% of the actual fee paid and payable for the previous year, and (6) for the period from June 1, 2023 through May 31, 2027, the same as the MAG rent for the period of June 1, 2022 through May 31, 2023. The percentage fee for the extension period will be set at 30% of gross receipts from on-airport sales and 18% of gross receipts from off-airport sales. Percentage fee for merchandise converted from duty free status to duty paid status shall be 1.25%, and the concession fee for items that are "High Price/Low Margin Merchandise" shall be 2.5% of the gross receipts from the sale. In addition, DFS agreed to pay \$27.9 million for improvements to the Central Waiting Lobby Building at Daniel K. Inouye International Airport.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Daniel K. Inouye International Airport, with the term commencing on April 1, 2009, and scheduled to terminate on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) MAG rent (85% of the actual annual fee paid for the preceding year). The lease agreement was extended for a holdover period through March 31, 2015. During the holdover period, the MAG rent was \$12 million. Subsequently, on October 31, 2014, the lease agreement was amended to extend the term through March 31, 2025. The amendment provided that the MAG rent be \$12 million for the period April 1, 2015 through March 31, 2016 and, for each subsequent year thereafter, the MAG rent will be 85% of the actual annual fee paid for the preceding year.

***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 September 2058. Those leases generally call for rental increases every five to ten years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2017 amounted to \$22,878,000 and have been included in rental revenues.

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The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2017 (amounts expressed in thousands):

Fiscal Year	Proprietary Funds		
	Airports	Harbors	Total
2018	\$ 86,186	\$ 5,726	\$ 91,912
2019	81,307	5,175	86,482
2020	71,819	5,152	76,971
2021	71,671	5,206	76,877
2022	26,148	5,270	31,418
2023–2027	96,008	25,206	121,214
2028–2032	30,370	22,979	53,349
2033–2037	5,151	16,455	21,606
2038–2042	3,262	11,120	14,382
2043–2047	4,333	7,343	11,676
2048–2052	-	2,617	2,617
2053–2057	-	2,481	2,481
2058–2059	-	517	517
	<u>\$ 476,255</u>	<u>\$ 115,247</u>	<u>\$ 591,502</u>

**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, 2017, net investments in direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	\$ 33,205
Less: Amount representing interest	<u>(12,679)</u>
	20,526
Cash with trustee and other	<u>1,352</u>
	<u>\$ 21,878</u>

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2017, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2018	\$ 1,222
2019	1,222
2020	1,222
2021	1,222
2022	1,222
2023–2027	6,110
2028	<u>22,336</u>
	<u>\$ 34,556</u>

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**10. Significant Transactions With Component Units**

**Hawaii Housing Finance and Development Corporation**

Amounts payable from the State to the HHFDC represent amounts due from DHHL 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 \$1,700,000 payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights at the net present value of the estimated future cash flows from the State using an imputed interest rate. As of June 30, 2017, the principal amount due to the HHFDC is approximately \$6,094,000.

**Hawaii Health Systems Corporation**

The amount due to the State of \$20,123,000 at June 30, 2017 is comprised of cash advances that was assumed by the HHSC.

**Hawaii Tourism Authority**

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's transient accommodations tax (TAT) revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the Convention Center Authority (CCA) and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253, SLH 2002. In accordance with Act 253, the Convention Center Fund was placed within the HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided the HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to the HTA by the CCA. The terms of the payment plan require the HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. The payment plan is not directly related to the actual debt service on the general obligation bonds issued to finance the Hawaii Convention Center. The HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund.

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At June 30, 2017, the outstanding principal and aggregate interest amounts required to be reimbursed by the HTA were \$176,805,000 and \$87,489,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2018	\$ 16,580	\$ 9,847	\$ 26,427
2019	17,575	8,852	26,427
2020	18,630	7,798	26,428
2021	19,750	6,680	26,430
2022	20,935	5,495	26,430
2023–2027	83,335	48,817	132,152
	\$ 176,805	\$ 87,489	\$ 264,294

For the year ended June 30, 2017, the HTA was required to reimburse Budget and Finance approximately \$26,431,000 for principal and interest.

**Hawaii Hurricane Relief Fund**

In 2002, Act 179, SLH 2002, provided that all interest and dividends earned from the principal in the hurricane reserve trust fund be transferred and deposited into the State General Fund each year that the hurricane reserve trust fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2017, interest and dividends earned and earmarked for transfer into the State General Fund amounted to \$3,282,000.

**11. Retirement Benefits**

**Pension Plan**

***Plan Description***

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website: <http://www.ers.ehawaii.gov>.

***Benefits Provided***

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

#### Noncontributory Class

- ***Retirement Benefits*** – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- ***Disability Benefits*** – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- ***Death Benefits*** – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

#### Contributory Class for Members Hired Prior to July 1, 2012

- ***Retirement Benefits*** – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

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- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member’s contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member’s contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member’s contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees’ retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Police officers and firefighters’ retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

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Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.
- Disability and Death Benefits – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.



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#### **Contributions**

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2017 were 25% for police officers and firefighters and 17% for all other employees. Contributions to the pension plan from the State was \$425,954,000 for the fiscal year ended June 30, 2017.

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for police and firefighters increases to 28% on July 1, 2017; 31% on July 1, 2018; 36% on July 1, 2019; and 41% on July 1, 2020, and the rate for all other employees increases to 18% on July 1, 2017; 19% on July 1, 2018; 22% on July 1, 2019; and 24% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

#### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2017, the State reported a liability of approximately \$6.6 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2016, the State's proportion was 56.5997% which was a decrease of 0.6387% from its proportion measured as of June 30, 2015.

There were significant changes in actuarial assumptions, effective June 30, 2016, based on the Five-Year Experience Study report dated July 5, 2016 that resulted in a significant increase in the measurement of the total pension liability. Primary drivers for the increase include a decrease in the investment return assumption and discount rate from 7.65% as of June 30, 2015 to 7.00% as of June 30, 2016; and a decrease in the mortality assumptions for longer life expectancy and an explicit assumption for continued future mortality improvement (generational approach).

There were no other changes between the measurement date, June 30, 2016, and the reporting date, June 30, 2017, that are expected to have a significant effect on the proportionate share of the net pension liability.

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For the year ended June 30, 2017, the State recognized pension expense of approximately \$786,112,000. At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 133,789	\$ (94,367)
Changes in assumptions	1,245,134	-
Net difference between projected and actual earnings on pension plan investments	408,706	-
Changes in proportion and differences between State contributions and proportionate share of contributions	22,193	(20,911)
State contributions subsequent to the measurement date	<u>425,954</u>	<u>-</u>
Total	<u>\$ 2,235,776</u>	<u>\$ (115,278)</u>

The \$425,954,000 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts expressed in thousands):

<b>Year ending June 30,</b>	
2018	\$ 327,427
2019	327,427
2020	443,818
2021	389,958
2022	<u>205,914</u>
	<u>\$ 1,694,544</u>

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii, on December 12, 2016, based on the most recent experience study dated July 5, 2016:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annual including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

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The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with a replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Strategic allocation (risk based classes)</b>		
Broad growth	63.0%	8.4%
Principal protection	7.0%	2.2%
Real return	10.0%	6.2%
Crisis risk offset	<u>20.0%</u>	5.5%
Total investments	<u>100.0%</u>	

***Discount Rate***

The discount rate used to measure the net pension liability was 7.00%, a decrease from the 7.65% rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the State’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the State’s proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the State’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (amounts expressed in thousands):

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
State’s proportionate share of the net pension liability	<u>\$ 8,468,807</u>	<u>\$ 6,559,768</u>	<u>\$ 5,092,152</u>

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***Pension Plan Fiduciary Net Position***

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS' financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS' complete financial statements are available at: <http://www.ers.ehawaii.gov>.

***Payables to the Pension Plan***

At June 30, 2017, the amount payable to the ERS was \$10,339,000.

**Postemployment 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 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 EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For 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 less than ten years of service, the State makes no contributions. For those retiring with at least ten 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 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.

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**Cost**

Effective July 1, 2006, the State implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Statement No. 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. Statement No. 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 retiree healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with Statement No. 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.

The State is required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to obtain an actuarial valuation every other year. Therefore, an actuarial valuation was performed as of July 1, 2015.

The State's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

Prior to fiscal year 2014, the State's base contribution levels were tied to the pay-as-you-go amounts necessary to provide current benefits to retirees. In fiscal year 2017, the State contributed \$327,750,000 in addition to amounts necessary to provide current benefits to retirees.

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The State's annual OPEB cost for each plan was calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in Statement No. 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, contributions made, the net OPEB liability, and the funding status for the EUTF and UH for each of the plans for the fiscal year ended June 30, 2017 (amounts expressed in thousands):

	<u>EUTF</u>	<u>UH</u>
Annual required contribution	\$ 638,748	\$ 105,500
Interest on net OPEB obligation	297,476	50,593
Adjustment to annual required contribution	<u>(237,411)</u>	<u>(40,377)</u>
Annual OPEB cost	698,813	115,716
Contributions made	<u>(609,800)</u>	<u>(49,700)</u>
Increase in net OPEB obligation	89,013	66,016
Net OPEB obligation		
Beginning of year	<u>4,249,664</u>	<u>722,757</u>
End of year	<u>\$ 4,338,677</u>	<u>\$ 788,773</u>
Actuarial accrued liability (AAL) July 1, 2015	\$ 8,024,355	\$ 1,262,765
Funded OPEB plan assets	<u>(191,118)</u>	<u>(30,076)</u>
Unfunded actuarial accrued liability (UAAL) July 1, 2015	<u>\$ 7,833,237</u>	<u>\$ 1,232,689</u>
Funded ratio	2.4%	2.4%
Covered payroll	\$ 2,559,000	\$ 587,000
UAAL as percentage of covered payroll	306.1%	210.0%

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and the preceding years were as follows (amounts expressed in thousands):

	<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
EUTF	June 30, 2017	\$ 698,813	87.3%	\$ 4,338,677
	June 30, 2016	698,051	72.5%	4,249,664
	June 30, 2015	675,941	52.1%	4,057,413
UH	June 30, 2017	\$ 115,716	42.9%	\$ 788,773
	June 30, 2016	117,052	38.5%	722,757
	June 30, 2015	113,009	36.6%	650,805

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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.

Act 268, SLH 2013 requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund postemployment health and other benefit costs for retirees and their beneficiaries. It established the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and required all public employers to make annual required public employer contributions effective fiscal year 2014. Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties.

***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:

	<u>EUTF and UH</u>
Actuarial valuation date	July 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percentage, closed
Remaining amortization period	28 years
Asset valuation method	Fair value
Actuarial assumptions	
Investment rate of return	7.0%
Projected salary increase	3.5%
Healthcare inflation rates	
PPO	9.0% initial, 5.0% after 8 years
HMO	7.0% initial, 5.0% after 8 years
Dental	4.0%
Vision	3.0%
Medicare Part B	3.0% initial, 5.0% after 2 years

Effective July 1, 2017, active employee health benefit contracts were extended through June 30, 2018.

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**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, 2017, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

**Special Revenue Funds**

Agriculture	\$ 5,678
Natural Resources	1,407
	<u>\$ 7,085</u>

***Accumulated Sick Leave***

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2017, accumulated sick leave was approximately \$1,188,798,000.

***Intergovernmental Expenditures***

In accordance with HRS Section 237D-6.5, as amended by Act 223, SLH 2016, transient accommodation tax revenues collected are to be distributed to the counties as follows: \$103,000,000 for fiscal year 2016–2017 and \$93,000,000 for each fiscal year thereafter.

***Encumbrances***

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. These amounts generally will become liabilities in future periods.

Significant encumbrances at June 30, 2017 include (amounts expressed in thousands):

**Fund Type**

General	\$ 488,284
Capital Projects	2,104,041
Med-Quest Special Revenue	29,913
Other Governmental	1,670,192
	<u>\$ 4,292,430</u>



# State of Hawaii

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#### ***Guarantees of Indebtedness***

The State is authorized to guarantee indebtedness of others at a maximum amount of approximately \$233,500,000 for aquaculture/agriculture 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, 2017.

#### **Proprietary Fund Type – Enterprise Funds**

##### ***Construction and Service Contracts***

At June 30, 2017, the Enterprise Funds had commitments of approximately \$1,345,043,000 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 years ended June 30, 2017, 2016 and 2015 approximated \$6,368,000, \$10,795,000 and \$5,322,000, 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 (MSA) 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 \$48,750,000 during the fiscal year ended June 30, 2017. As of June 30, 2017, the State expects to receive \$20,500,000 for the first six months of fiscal 2018.

The MSA requires the State to diligently enforce certain requirements enacted in the Tobacco Liability Act. Failure may result in a state losing a significant portion of its MSA payments. Participating tobacco manufacturers who have joined in the MSA are challenging whether the State of Hawaii diligently enforced the provisions of the Tobacco Liability Act for the entirety of 2004. Preliminary phases of the 2004 Diligent Enforcement Arbitration have commenced and the arbitration is anticipated to begin in August 2018.

##### ***Office of Hawaiian Affairs and Ceded Lands***

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 of Hawaii 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. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands as provided by law 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 the funds

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derived by the State from the Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for the claims pending in the *OHA v. HHA* case discussed below, the Legislature, the state and federal courts, and the State's governors have acted to address the concerns raised. However, there can be no assurance that in the future there will not be asserted against the State new claims made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or that OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

In *OHA v. HHA*, OHA filed suit on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1<sup>st</sup> Cir.)) against the Hawaii Housing Authority (the HHA, since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA, and the Director of Finance 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 *OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1<sup>st</sup> Cir.). The September 12, 2001 decision of the Hawaii Supreme Court (*OHA v. State of Hawaii*, 96 Haw. 399 (2001)) includes elements, with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA*, and the case remains pending.

The Housing Finance and Development Corporation and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. This corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

In *OHA v. State of Hawaii, UH, DLNR, Board of Land and Natural Resources (BLNR)*, Civil No. 17-1-1823-11 JPC (1<sup>st</sup> Cir.) letter dated May 31, 2016, addressed to the State's Attorney General and the vice president for Legal Affairs and General Counsel of the University of Hawaii, OHA gave notice, pursuant to HRS Section 673-3, of its intent to sue the State, the Department of Land and Natural Resources, and the University of Hawaii for the State's breach of its fiduciary duties as trustee of the public land trust, in connection with their management of Mauna Kea. OHA filed its Complaint for Declaratory Judgment and Injunctive Relief, Accounting, Restitution, and Damages on November 7, 2017. The complaint was served on the Attorney General for the State of Hawaii, DLNR and BLNR on December 20, 2017.

The State intends to defend vigorously against OHA's claim in *OHA v. HHA* and in *OHA v. State of Hawaii, UH, DLNR, BLNR*. Resolution of all claims in favor of OHA and its beneficiaries could have a material adverse effect on the State's financial condition.

#### **Department of Hawaiian Home Lands**

In 1991, the 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 (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.

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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; 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 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 Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999.

On December 29, 1999, 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 (1<sup>st</sup> Cir.) (*Kalima I*). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. The plaintiffs in these other actions 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. Following the dismissal without prejudice of the actions of four of the five claimants, only one lawsuit, *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (3<sup>rd</sup> Cir.) (*Aguiar*), is pending and stayed.

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 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 (1<sup>st</sup> 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*. *Kalima I*, *Kalima II* and *Aguiar* are collectively referred to under this caption as the "Individual Claims Cases."

The plaintiffs in *Kalima I* filed a motion for partial summary judgment and asked the circuit court to declare that they were entitled to sue for breach of trust and recover damages under HRS Chapter 674. The State moved to dismiss the complaint and all claims in *Kalima I* for lack of subject matter jurisdiction. The circuit court granted the plaintiffs' motion and denied the State's motion. The State was permitted to make an interlocutory appeal. In an opinion issued June 30, 2006, the Hawaii Supreme Court affirmed the circuit court's determination that the plaintiffs were entitled to pursue their claims under HRS Chapter 674, but did not have a right to sue under HRS Chapter 661, and remanded the case back to the trial court for further proceedings.

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The plaintiffs in *Kalima I* have since filed first and second amended complaints 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 list subclass' claims separately and first, and after a six-week bifurcated trial to determine liability only, the circuit judge for *Kalima II* ruled on November 3, 2009 that the State committed three breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches.

By orders entered on November 24, 2009 and June 6, 2011, respectively, the Waiting List Liability Subclass certified for purposes of determining liability was recertified for the purpose of establishing causation and the fact of damages (over the State's objection), and again as the Waiting List Damages Model Subclass for the purpose of devising a model for use on a class-wide basis to determine the amount of damages subclass members may be awarded. Notice to the putative members of the Waiting List Damages Model Subclass of the right to opt-out of the Waiting List Damages Model Subclass was mailed to all members of the Waiting List Liability Subclass on May 22, 2012, and published on the DHHL Website, and in the DHHL and OHA newsletters.

Multiple motions to establish a damages model were filed and heard between March 2011 and August 31, 2012. Orders were entered on January 24, 2012, and February 14, 2013. After a three-day trial completed on October 3, 2013, the court ruled in a minute order that (1) the annual fair market rental values used to calculate damages for claimants who applied for Oahu residential leases be based on 4% of the fee simple value of a 5,000 square foot lot in Maili, obtained from a "best fit" curve derived from actual fee simple Maili valuations from 1959 through July 8, 2013, (2) for damage calculations the rents adjust annually, and (3) that there are no increases for the consumer price index or other present value adjustments. However, to date, no proceeding or procedure has been scheduled or devised to apply the damages model to determine whether and how much each claimant would be awarded in damages. The parties have participated in a private mediation on the matters in controversy in the case, pursuant to the circuit court's order approving the parties' Stipulation to Participate in Private Mediation, etc., filed on September 13, 2013.

On January 20, 2015, Plaintiffs filed a motion for summary judgment to compute the damages of members of the Waiting List Damages Subclass (none of whom were named plaintiffs) who applied for a residential homestead on Oahu. The motion was heard on June 30, 2015. A written order disposing of the motion has not yet been entered.

The parties have agreed to make every effort to facilitate the entry of a final judgment in the case as expeditiously as possible. In furtherance of that effort, Plaintiffs filed seven motions in June and July of 2016. The State filed cross motions to three of Plaintiffs' motions, and opposed all Plaintiffs' motions. The circuit court heard all motions on September 2, 2016, and took them under advisement. Plaintiffs filed four additional motions and the State filed three additional motions, which were heard on November 4, 2016, December 12, 2016, and January 30, 2017, respectively.

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The circuit court entered orders granting (in whole or in part) eleven of the Plaintiffs' motions and denying (in whole or in part) two of the Plaintiffs' motions. The circuit court entered orders granting (in whole or in part) three of the State's motions and cross motions, and denying (in whole or in part) four of the State's motions and cross motions.

The parties anticipate that a final judgment disposing of the claims of the Waiting List Subclass will be entered shortly and that, in due course, each side will take an appeal from the judgment and certain orders entered by the circuit court.

*Nelson* – In the First Amended Complaint filed on October 19, 2007 in *Nelson et al., v. Hawaiian Homes Commission, et al.*, Civil No. 07-1-1663-08 BIA (1<sup>st</sup> Cir.) (*Nelson*), the 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 (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 asked 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 Hawaii State Legislature, the State of Hawaii, or any State agency or employee, is required to appropriate, request or otherwise provide or secure particular amounts of money for 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.

A final judgment in favor of the State was filed on September 23, 2009, and the plaintiffs appealed. On January 12, 2011, the Intermediate Court of Appeals concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs' claims, and vacated the judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse the Intermediate Court of Appeals' judgment on appeal, and affirm the circuit court's final judgment, on May 4, 2011. In the Hawaii Supreme Court, DHHL, and the Hawaiian Homes Commission and its members changed their position, and no longer supported the political question doctrine defense.

On May 9, 2012, the Hawaii Supreme Court concluded that there are no judicially manageable standards for determining "sufficient sums" for purposes of (1) developing lots, (2) loans, and (3) rehabilitation projects, which are the first three items listed in Article XII, Section 1. The Hawaii Supreme Court thus held plaintiffs' claims with respect to those items should have been rejected on political question grounds, and the Intermediate Court of Appeals erred in not so concluding. However, the Hawaii Supreme Court did uphold the Intermediate Court of Appeals

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as to item (4) of Article XII, Section 1, concluding that there are judicially manageable standards to determine what constitutes sufficient sums for “administrative and operating expenses.” Determination of this amount awaits further litigation in the circuit court on remand. Pursuant to the Judgment on Appeal issued on July 25, 2013, the case was remanded to the circuit court for further proceedings.

On November 27, 2015, the circuit court issued its Findings of Fact, Conclusions of Law, and Order, which declared and ordered (1) the State has failed to provide sufficient funds to DHHL for its administrative and operating budget (budget) in violation of the State’s constitutional duty, (2) the State must fulfill its constitutional duty by appropriating sufficient general funds to DHHL for its budget so that DHHL does not need to use or rely on revenue from general leases, and (3) although what is “sufficient” will change over the years, the sufficient sums that the legislature is constitutionally obligated to appropriate in general funds for DHHL’s budget (not including significant repairs) is more than \$28 million for fiscal year 2015–2016. The circuit court also ruled that prior to 2012, DHHL breached its trust duties by failing to take all reasonable efforts, including filing suit, to obtain all the funding it needs for its budget, and shall prospectively fulfill its constitutional duties and trust responsibilities and are enjoined from violating these obligations.

On December 21, 2015, after judgment was entered, the State filed a motion for reconsideration or to alter or amend the judgment and order, which the court granted in part and denied in part. The court rejected the State’s position that (1) the legislature, not the courts, has the exclusive prerogative to decide what is a “sufficient sum” for DHHL’s budget under Article XII, Section 1, and (2) there was insufficient evidence to support the court’s conclusion that the “sufficient sum” for DHHL’s budget is more than \$28 million for fiscal year 2015–2016. The court granted reconsideration with the State’s position that the judicial courts lack the authority, under the separation of powers doctrine, to order the legislative branch to appropriate any particular amount of funds to DHHL. The court amended its original Order to state that \$9,632,000 is not sufficient and that the State is required to fund DHHL’s expenses by making sufficient general funds available to DHHL for fiscal year 2015–2016.

Plaintiffs filed a motion for reconsideration which the court denied. The State filed a notice of appeal and the Plaintiff filed a notice of cross-appeal, both filed in the Intermediate Court of Appeals. Briefing in both appeals is completed, and on February 23, 2017, the Legislature was allowed, and filed an amicus curiae brief in support of the State’s positions. On March 8, 2017, in response to the DHHL’s application for transfer, the Hawaii Supreme Court transferred the appeal and cross-appeal from the Intermediate Court of Appeals to the Hawaii Supreme Court. The Hawaii Supreme Court heard oral arguments in the appeal and cross-appeal on July 6, 2017. The appeal and cross-appeal are under advisement.

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.

***Hawaii Employer-Union Health Benefits Trust Fund***

In June 2006, certain retired public employees (Plaintiffs) filed a class action lawsuit in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the EUTF, and the EUTF Board of Trustees (collectively, the Defendants). See *Marion Everson, et al. v. State of Hawaii, et al.*, Civil No. 06-1-1141-06, First Circuit Court, State of Hawaii (Civil No. 06-1-1141-06). In relevant part, Plaintiffs claimed that Defendants violated their constitutional, contractual and statutory rights 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.

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Following a related proceeding that commenced in 2007, the Hawaii Supreme Court held that health benefits for retired state and county employees constitute “accrued benefits” pursuant to Article XVI, Section 2 of the Hawaii Constitution, but that HRS Chapter 87A (particularly HRS Section 87A-23) did not require that retiree health benefits reasonably approximate those provided to active employees. See *Everson v. State*, 122 Hawai‘i 401, P.3d 282 (2010). The Hawaii Supreme Court did not decide when retiree health benefits “accrued” so as to be protected under Article XVI, Section 2 of the Hawaii Constitution nor did it decide whether the enactment of any part of HRS Chapter 87A violated Article XVI, Section 2 of the Hawaii Constitution.

In December 2010, Plaintiffs filed a Second Amended Complaint in Civil No. 06-1-1140-06 (nka *James Dannenberg, et al. v. State of Hawaii, et al.*) claiming that Defendants have violated their constitutional, contractual and statutory rights under Article XVI, Section 2 of the Hawaii Constitution and HRS Chapter 87 by failing to provide them and other State and county retirees with: (a) health care benefits that are equivalent to those provided to State and county active employees; and/or (b) health care benefits that are equivalent to benefits provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age. The Second Amended Complaint also claims that State and county employees who retired prior to July 1, 2001, are contractually entitled to have their employers pay for all their health plan premiums despite the contribution caps in Sections 87A-33 through 87A-36, HRS. The Second Amended Complaint also claims that the EUTF was negligent in failing to properly interpret constitutional, statutory and contractual requirements when it created retiree health plans. Plaintiffs seek declaratory and injunctive relief and monetary damages. The monetary damages sought are: (1) the amount that retirees and their dependents have had to personally pay for health care because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; (2) damages for health care that retirees and their dependents have foregone because Defendants refused or failed to provide them with the health benefits that they were constitutionally or contractually entitled to; and (3) damages for pain and suffering. In January 2011, the Defendants filed an answer denying the substantive allegations of the Second Amended Complaint.

On August 29, 2013, the First Circuit Court entered an Order Granting Plaintiffs’ Motion for Class Action Certification. The class certified is all employees (and their dependent-beneficiaries) who began working for the Territory of Hawaii, State of Hawaii, or any political subdivision thereof, before July 1, 2003, and who have accrued or will accrue a right to post-retirement health benefits as a retiree or dependent-beneficiary of such a retiree. This includes: (a) those who have not yet received any post-retirement health benefits from Defendants as a retiree or dependent-beneficiary of such a retiree; and (b) those who have received any post-retirement health benefits from Defendants since July 1, 2003 as a retiree or dependent-beneficiary of such a retiree. For purposes of damages only, if any, the class shall also include the estates and heirs of any deceased retiree or deceased dependent-beneficiary of a retiree who is or was a member of the class.

On December 10, 2012, Plaintiffs filed Plaintiffs’ Motion for Partial Summary Judgment seeking judgment in their favor and against Defendants on the liability issues in the lawsuit, i.e., that Plaintiffs be granted their requested declaratory and injunctive relief, and that Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, State Defendants filed State Defendants’ Motion for Partial Summary Judgment seeking judgment in their favor and against Plaintiffs on all of Plaintiffs’ claims that are based on the allegations that: (1) State Defendants have violated the constitutional, contractual and statutory rights of Plaintiffs by not providing health care benefits for retirees and their dependents that are equivalent to those provided to active employees and their dependents; (2) State Defendants have violated the constitutional and contractual rights of Plaintiffs by not providing health care benefits to retirees

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and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and (3) State Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were heard by the First Circuit Court on October 30, 2013, and taken under advisement. On October 16, 2014, the Court issued an Order Denying Plaintiffs' Motion for Partial Summary Judgment and Order Granting State Defendants' Motion for Partial Summary Judgment (Order). The Court ruled that Plaintiffs' accrued health benefits have not been reduced, diminished or impaired inasmuch as the health benefits that retirees received under the Hawaii Public Employees Health Fund. Plaintiffs filed a motion for reconsideration of the Order or alternatively for an interlocutory appeal. On November 13, 2014, the Court issued a minute order denying the motion. On State Defendants' motion, the case was transferred to the Hawaii Supreme Court. Briefing was completed in October 2015. In October 2016, the Hawaii Supreme Court issued an opinion affirming the circuit court's decision in the State's favor, but also ruled that the State was not entitled to judgment as a matter of law, and remanded the case to the trial court. The case is pending the trial court proceedings to recommence. State Defendants intend to continue to vigorously defend against the Plaintiffs' claims in this lawsuit. Resolution of the Plaintiffs' claims in their favor could have a material adverse effect on the State's financial condition.

***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 to June 30, 2005.

An adverse ruling against the State was made by the First Circuit Court on a motion for summary judgment regarding liability issues. The adverse ruling was the subject of an interlocutory appeal to the Intermediate Court of Appeals, which issued its ruling on October 30, 2009, affirming the adverse ruling. The Supreme Court denied certiorari on August 16, 2010 and the case was remanded to the Circuit Court for a determination of damages.

The parties agreed to settle before the matter was set for trial on this issue. On February 26, 2014, a settlement check in the amount of approximately \$15,091,100 was transmitted to Plaintiffs' attorney. Subsequently, the Circuit Court granted Plaintiffs' motion for the award of prejudgment interest. The State appealed this decision to the Intermediate Court of Appeals on June 15, 2015. Act 63, SLH 2016, appropriated \$3,026,000 for settlement of attorneys' fees for this action.

During the year, the Hawaii Supreme Court ruled in the State's favor on all issues on appeal.

***Tax Foundation of Hawaii***

On October 21, 2015, the Tax Foundation of Hawaii filed a declaratory action challenging the State's 10% deduction, pursuant to HRS Section 248-2.6(a), from the surcharge on Honolulu's general excise tax that funds the Honolulu rail project. The Tax Foundation argued that only administrative costs of the surcharge could be retained by the State and the rest of the funds should be paid to the City and County of Honolulu.

The State's Motion to Dismiss was granted during the circuit court proceedings, based on the exclusion for tax controversies in the declaratory judgment act. However, the Tax Foundation appealed and the case was transferred to the Hawaii Supreme Court. Oral arguments were held on July 6, 2017. Following the 2017 Special Session of the Legislature, the State submitted an HRAP Rule 28(j) letter to the Court reporting the enactment of Act 1 (S.B. 4), 29<sup>th</sup> Leg., 1<sup>st</sup> Spec. Sess. (2017). The appeal is pending.



Although the case involves injunctive relief, the Tax Foundation also requested reimbursement to the City and County of Honolulu of prior deductions from the surcharge. It is unclear how much potential liability the State is facing. The State intends to vigorously contest all claims in this case. Resolution of the Plaintiff's claims in their favor could have a material adverse effect on the State's financial condition.

### **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 ten 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 and machinery coverage. The limit of loss per occurrence is \$200,000,000, except for terrorism, which is \$50,000,000 per occurrence and a \$10,000 deductible.

#### **Crime Insurance**

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 under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services and losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

#### **General Liability (Including Torts)**

Liability claims up to \$10,000 and automobile claims up to \$15,000 are handled by the Risk Management Office. 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 \$7,500,000 and for crime loss, \$10,000,000 with no aggregate limit.

Losses under the deductible amount or over the aggregate limit are typically 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 \$35,000,000 per occurrence and \$39,000,000 in aggregate.

#### **Self-Insured Risks**

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to \$15,000 are administered by the Risk Management Office. The State administers its workers' compensation losses.

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**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, 2017, 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 position, as those losses will be liquidated with future expendable resources. The estimated losses are generally 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 for governmental activities at June 30, 2017 and 2016, respectively (amounts expressed in thousands):

	<u>2017</u>	<u>2016</u>
<b>Unpaid losses and loss adjustment costs</b>		
Beginning of the fiscal year	\$ 166,565	\$ 150,176
Incurred losses and loss adjustment costs		
Provision for insured events of current fiscal year	68,349	55,743
Change in provision for insured events of prior fiscal years	680	(1,495)
Total incurred losses and loss adjustment costs	<u>69,029</u>	<u>54,248</u>
Payments		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(12,283)	(15,622)
Losses and loss adjustment costs attributable to insured events of prior fiscal year	(24,992)	(22,237)
Total payments	<u>(37,275)</u>	<u>(37,859)</u>
<b>Unpaid losses and loss adjustment costs</b>		
End of the fiscal year	<u>\$ 198,319</u>	<u>\$ 166,565</u>

**14. Subsequent Events**

**Department of Transportation – Airports Division**

In July 2017, Airports issued \$249,805,000 of Airports system customer facility charge revenue bonds (Customer Facility Charge Revenue Bonds, Series 2017A) at interest rates ranging from 1.70% to 4.14%. The Series 2017 Bonds are being issued for the costs of design, development and construction of consolidated rental motor vehicle projects at certain airports and to fund the Rolling Coverage Fund Requirement and the Debt Service Reserve Fund Requirement for the Series 2017 Bonds and to pay certain costs of issuance relating to the Series 2017 bonds. The Bonds are special limited obligations of the State, payable solely from and secured by the receipts from collection of the Rental Motor Vehicle Customer Facility Charge imposed by the State on rental motor vehicle customers who use or benefit from rental car facilities at all airports in the Airports system.

**Department of Transportation – Harbors Division**

In July 2017, Harbors issued \$22,425,000 in Series 2016 D Revenue Refunding Bonds. The bonds bear interest at 3.09% with a maturity date of July 1, 2027. Proceeds were used to refund \$22,315,000 of 2007 A Bonds. The refunding of 2007 A Bonds provided net present value savings of approximately \$2,959,000.

**State of Hawaii**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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**Department of Hawaiian Home Lands**

In August 2017, DHHL issued \$30,940,000 in Series 2017 and \$15,125,000 in Series 2017 A revenue refunding bonds. The bonds bear interest from 2.00% to 5.00% with maturity dates through April 2032. Proceeds of the Series 2017 revenue bonds were used to refund \$36,640,000 of Series 2009 revenue bonds, and the Series 2017 A refunded \$18,475,000 of Series 2006 A. The refunding of the 2009 and 2006 A bonds provided net present value savings of approximately \$16,483,000.

**General Obligation Bonds**

In December 2017, the State issued \$2,790,000 in General Obligation Refunding Bonds of 2017, Series FQ, \$15,090,000 in General Obligation Refunding Bonds of 2017, Series FR, and \$275,363,064 in General Obligation Refunding Bonds of 2017, Series FS. Series FQ, FR and FS were issued for the purpose of refunding certain outstanding general obligation bonds of the State previously issued for public purposes.

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

**State of Hawaii**  
**Required Supplementary Information**  
**Other Than Management's Discussion and Analysis**  
**(Unaudited)**

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

Med-Quest Special Revenue Fund – Schedule of Revenues and Expenditures –  
Budget and Actual (Budgetary Basis)

Notes to Required Supplementary Information – Budgetary Control

General Fund and Med-Quest Special Revenue Fund –  
Reconciliation of the Budgetary to GAAP Basis

Schedule of the Proportionate Share of the Net Pension Liability – Last Ten Fiscal Years

Schedule of Contributions – Last Ten Fiscal Years

Schedules of Funding Progress – EUTF and UH

**State of Hawaii**  
**General Fund**  
**Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance With Final Budget – Positive (Negative)</u>
<b>Revenues</b>				
Taxes				
General excise tax	\$ 3,373,680	\$ 3,330,214	\$ 3,239,225	\$ (90,989)
Net income tax				
Corporations	85,684	95,000	173,666	78,666
Individuals	2,190,098	2,106,865	2,095,436	(11,429)
Inheritance and estate tax	12,436	50,476	18,968	(31,508)
Liquor permits and tax	50,969	51,044	51,167	123
Public service companies tax	172,598	157,635	122,159	(35,476)
Tobacco tax	90,900	85,650	82,792	(2,858)
Tax on premiums of insurance companies	150,000	155,000	164,688	9,688
Franchise tax (banks and other financial institutions)	19,500	22,217	9,174	(13,043)
Transient accommodations tax	251,937	249,741	292,357	42,616
Other taxes, primarily conveyances tax	28,263	66,207	65,526	(681)
Total taxes	<u>6,426,065</u>	<u>6,370,049</u>	<u>6,315,158</u>	<u>(54,891)</u>
Non-taxes				
Interest and investment income	5,211	14,012	14,402	390
Charges for current services	308,394	325,839	329,598	3,759
Intergovernmental	12,783	12,750	8,619	(4,131)
Rentals	694	699	323	(376)
Fines, forfeitures and penalties	23,030	23,588	22,450	(1,138)
Licenses and fees	1,020	1,037	1,070	33
Revenues from private sources	2,501	3,001	2,922	(79)
Debt service requirements	32,551	28,181	27,650	(531)
Other	326,468	496,956	562,135	65,179
Total non-taxes	<u>712,652</u>	<u>906,063</u>	<u>969,169</u>	<u>63,106</u>
Total revenues	<u>7,138,717</u>	<u>7,276,112</u>	<u>7,284,327</u>	<u>8,215</u>
<b>Expenditures</b>				
General government	3,310,529	3,294,229	3,144,267	149,962
Public safety	281,466	287,473	285,021	2,452
Conservation of natural resources	58,562	63,211	54,298	8,913
Health	469,462	473,982	456,207	17,775
Hospitals	115,940	115,940	105,940	10,000
Welfare	1,192,803	1,197,988	1,169,903	28,085
Lower education	1,650,148	1,676,519	1,603,544	72,975
Higher education	436,891	474,009	471,453	2,556
Other education	6,604	6,702	6,415	287
Culture and recreation	47,458	48,800	46,793	2,007
Economic development and assistance	36,335	39,716	36,436	3,280
Housing	37,650	37,433	36,509	924
Other	25,425	30,470	21,324	9,146
Total expenditures	<u>7,669,273</u>	<u>7,746,472</u>	<u>7,438,110</u>	<u>308,362</u>
Deficiency of revenues under expenditures	(530,556)	(470,360)	(153,783)	316,577
Other financing sources – Transfers in	45,590	69,711	67,251	(2,460)
Deficiency of revenues and other sources under expenditures	<u>\$ (484,966)</u>	<u>\$ (400,649)</u>	<u>\$ (86,532)</u>	<u>\$ 314,117</u>

**State of Hawaii**  
**Med-Quest Special Revenue Fund**  
**Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance With Final Budget – Positive (Negative)</u>
<b>Revenues – non-taxes</b>				
Intergovernmental	\$ -	\$ -	\$ 14,528	\$ 14,528
Revenues from private sources	-	-	39,094	39,094
Other	4,583	-	3,676	3,676
Total revenues – non-taxes	<u>4,583</u>	<u>-</u>	<u>57,298</u>	<u>57,298</u>
<b>Expenditures</b>				
Welfare	88,698	88,698	36,820	51,878
Total expenditures	<u>88,698</u>	<u>88,698</u>	<u>36,820</u>	<u>51,878</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (84,115)</u>	<u>\$ (88,698)</u>	<u>\$ 20,478</u>	<u>\$ 109,176</u>



# State of Hawaii

## Notes to Required Supplementary Information – Budgetary Control

### Year Ended June 30, 2017

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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 2015 (Act 119, SLH 2015), and as amended by the Supplemental Appropriations Act of 2016 (Act 124, SLH 2016), 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 2015–2017 biennial budget and executive supplemental 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 budgets in the accompanying General Fund and Special Revenue Fund Schedules of Revenues and Expenditures – Budget and Actual (Budgetary Basis) represent 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 detailed level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2017, there were no expenditures in excess of appropriations in the individual funds.

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 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 and Special Revenue Fund are presented in the General Fund and Special Revenue Fund schedules of revenues and expenditures – budget and actual (budgetary basis). The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

**State of Hawaii**  
**General Fund and Med-Quest Special Revenue Fund**  
**Reconciliation of the Budgetary to GAAP Basis**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

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A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2017 follows (amounts expressed in thousands):

	<b>General Fund</b>	<b>Med-Quest Special Revenue Fund</b>
	<u>          </u>	<u>          </u>
Excess of revenues and other sources over expenditures – actual (budgetary basis)	\$ (153,783)	\$ 20,478
Transfers	781,501	115,113
Reserve for encumbrances at fiscal year end*	382,831	-
Expenditures for liquidation of prior fiscal year encumbrances	(454,396)	(159,773)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	71,170	87,737
Tax refunds payable	(40,049)	-
Accrued liabilities	17,287	(4,418)
Accrued revenues	20,394	67,434
	<u>          </u>	<u>          </u>
Excess of revenues over expenditures – GAAP basis	<u>\$ 624,955</u>	<u>\$ 126,571</u>

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

**State of Hawaii**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**Last Ten Fiscal Years\***  
**(Amounts in millions)**

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>State of Hawaii, excluding UH</b>				
State's proportion of the net pension liability	56.600%	57.238%	58.483%	57.638%
State's proportionate share of the net pension liability	\$ 7,567	\$ 4,999	\$ 4,689	\$ 5,148
State's covered-employee payroll	\$ 2,559	\$ 2,496	\$ 2,424	\$ 2,341
State's proportionate share of the net pension liability as a percentage of its covered-employee payroll	295.7%	200.2%	193.4%	219.9%
Plan fiduciary net position as a percentage of total net pension liability	51.3%	62.4%	63.9%	58.0%
<b>UH</b>				
Proportion of the net pension liability	12.750%	13.110%	13.600%	13.750%
Proportionate share of the net pension liability	\$ 1,704	\$ 1,145	\$ 1,090	\$ 1,228
Covered-employee payroll	\$ 587	\$ 569	\$ 565	\$ 551
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	290.0%	201.2%	192.9%	222.9%
Plan fiduciary net position as a percentage of total net pension liability	51.3%	62.4%	63.9%	58.0%

\* Information for 2008–2013 is unavailable.

**State of Hawaii**  
**Schedule of Contributions**  
**Last Ten Fiscal Years\***  
**(Amounts in millions)**

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>State of Hawaii, excluding UH</b>				
Statutorily required contribution	\$ 445	\$ 432	\$ 410	\$ 380
Contributions in relation to the contractually required contribution	<u>445</u>	<u>432</u>	<u>410</u>	<u>380</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
State's covered-employee payroll	\$ 2,559	\$ 2,496	\$ 2,424	\$ 2,341
Contributions as a percentage of covered-employee payroll	17.4%	17.3%	16.9%	16.2%
<b>UH</b>				
Statutorily required contribution	\$ 99	\$ 97	\$ 94	\$ 88
Contributions in relation to the contractually required contribution	<u>99</u>	<u>97</u>	<u>94</u>	<u>88</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 587	\$ 573	\$ 565	\$ 551
Contributions as a percentage of covered-employee payroll	16.8%	16.9%	16.6%	16.0%

\* Information for 2008–2013 is unavailable.

**State of Hawaii**  
**Schedules of Funding Progress**  
**June 30, 2017**  
(Amounts in Millions)

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**Postemployment Benefits Other Than Pensions**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<b>EUTF</b>						
July 1, 2011	\$ -	\$ 11,706	\$ 11,706	- %	\$ 2,093	559.3%
July 1, 2013	-	7,344	7,344	- %	2,341	313.7%
July 1, 2015	191	8,024	7,833	2%	2,496	313.8%
<b>UH</b>						
July 1, 2011	\$ -	\$ 1,861	\$ 1,861	- %	\$ 504	369.3%
July 1, 2013	-	1,186	1,186	- %	551	215.3%
July 1, 2015	30	1,263	1,233	2%	569	216.7%

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## **SUPPLEMENTARY INFORMATION**

**State of Hawaii**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

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**NONMAJOR GOVERNMENTAL FUNDS**

**Special Revenue Funds**

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

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

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

**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, 2017**  
**(Amounts in thousands)**

	<b>Special Revenue Funds</b>					
	<b>Highways</b>	<b>Natural Resources</b>	<b>Health</b>	<b>Human Services</b>	<b>Education</b>	<b>Economic Development</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 17,073	\$ 9,019	\$ 14,571	\$ 3,160	\$ 54,404	\$ 146,369
Notes and loans receivable, net	-	21,786	-	-	-	5,927
Due from federal government	-	-	-	6,764	-	-
Due from other funds	-	-	-	-	-	-
Investments	226,829	119,823	193,574	41,984	137,675	23,680
Other assets	8,561	-	-	-	-	-
Total assets	<u>\$ 252,463</u>	<u>\$ 150,628</u>	<u>\$ 208,145</u>	<u>\$ 51,908</u>	<u>\$ 192,079</u>	<u>\$ 175,976</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Vouchers and contracts payable	\$ 16,852	\$ 3,906	\$ 24,131	\$ 8,455	\$ 10,370	\$ 1,282
Other accrued liabilities	6,044	3,006	5,736	361	13,492	1,094
Due to other funds	-	300	-	39,401	-	-
Payable from restricted assets – Matured bonds and interest payable	-	-	-	-	-	-
Total liabilities	<u>22,896</u>	<u>7,212</u>	<u>29,867</u>	<u>48,217</u>	<u>23,862</u>	<u>2,376</u>
<b>Fund balances</b>						
Restricted	-	-	-	9,584	-	-
Committed	-	37,353	183,209	2,855	-	-
Assigned	229,567	106,063	-	-	168,217	173,600
Unassigned	-	-	(4,931)	(8,748)	-	-
Total fund balances	<u>229,567</u>	<u>143,416</u>	<u>178,278</u>	<u>3,691</u>	<u>168,217</u>	<u>173,600</u>
Total liabilities and fund balances	<u>\$ 252,463</u>	<u>\$ 150,628</u>	<u>\$ 208,145</u>	<u>\$ 51,908</u>	<u>\$ 192,079</u>	<u>\$ 175,976</u>

<b>Employment</b>	<b>Regulatory</b>	<b>Hawaiian Programs</b>	<b>Administrative Support</b>	<b>All Other</b>	<b>Total</b>	<b>Debt Service Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 1,338	\$ 6,326	\$ 23,767	\$ 49,900	\$ 3,527	\$ 329,454	\$ 335	\$ 329,789
-	-	55,880	-	-	83,593	-	83,593
-	-	-	-	-	6,764	-	6,764
-	-	-	-	-	-	35	35
17,774	84,038	265,351	364,587	46,855	1,522,170	-	1,522,170
-	-	-	-	-	8,561	-	8,561
<b>\$ 19,112</b>	<b>\$ 90,364</b>	<b>\$ 344,998</b>	<b>\$ 414,487</b>	<b>\$ 50,382</b>	<b>\$ 1,950,542</b>	<b>\$ 370</b>	<b>\$ 1,950,912</b>
\$ 2,139	\$ 1,005	\$ 2,300	\$ 5,958	\$ 4,581	\$ 80,979	\$ -	\$ 80,979
1,589	3,055	-	3,291	2,816	40,484	-	40,484
-	-	-	-	1,559	41,260	-	41,260
-	-	-	-	-	-	335	335
<b>3,728</b>	<b>4,060</b>	<b>2,300</b>	<b>9,249</b>	<b>8,956</b>	<b>162,723</b>	<b>335</b>	<b>163,058</b>
-	-	-	-	-	9,584	35	9,619
-	62,303	63,002	337,723	-	686,445	-	686,445
15,384	24,001	279,696	67,515	41,426	1,105,469	-	1,105,469
-	-	-	-	-	(13,679)	-	(13,679)
<b>15,384</b>	<b>86,304</b>	<b>342,698</b>	<b>405,238</b>	<b>41,426</b>	<b>1,787,819</b>	<b>35</b>	<b>1,787,854</b>
<b>\$ 19,112</b>	<b>\$ 90,364</b>	<b>\$ 344,998</b>	<b>\$ 414,487</b>	<b>\$ 50,382</b>	<b>\$ 1,950,542</b>	<b>\$ 370</b>	<b>\$ 1,950,912</b>

**State of Hawaii**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	<b>Special Revenue Funds</b>					
	<b>Highways</b>	<b>Natural Resources</b>	<b>Health</b>	<b>Human Services</b>	<b>Education</b>	<b>Economic Development</b>
<b>Revenues</b>						
Taxes						
Franchise tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tobacco and liquor taxes	-	-	25,000	-	-	-
Liquid fuel tax	83,021	250	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Vehicle weight and registration tax	127,256	-	5,718	-	-	-
Rental motor/tour vehicle surcharge tax	53,187	-	-	-	-	-
Other	-	13,001	1,267	-	-	3,801
Total taxes	<u>263,464</u>	<u>13,251</u>	<u>31,985</u>	<u>-</u>	<u>-</u>	<u>3,801</u>
Interest and investment income	2,788	1,563	1,153	12	318	753
Charges for current services	4,076	30,614	41,738	259	41,477	18,989
Intergovernmental	123,947	22,447	115,564	665,847	241,621	13,475
Rentals	1,000	9,576	-	-	410	1,403
Fines, forfeitures and penalties	5,215	59	2,887	-	-	6
Licenses and fees	2,167	712	3,679	95	457	-
Revenues from private sources	-	580	48,434	34	12,693	131
Other	11,133	6,998	2,459	1,760	15,276	3,523
Total revenues	<u>413,790</u>	<u>85,800</u>	<u>247,899</u>	<u>668,007</u>	<u>312,252</u>	<u>42,081</u>
<b>Expenditures</b>						
Current						
General government	-	5,508	221	-	-	-
Public safety	-	2,052	-	113	-	-
Highways	323,916	95	-	-	-	-
Conservation of natural resources	-	62,093	-	-	-	950
Health	-	-	212,424	-	-	-
Welfare	-	-	-	607,796	-	-
Lower education	-	-	-	-	395,984	-
Other education	-	-	-	19,627	-	-
Culture and recreation	-	11,245	-	-	4,640	-
Urban redevelopment and housing	-	-	-	2,311	-	-
Economic development and assistance	-	2,284	-	-	-	32,422
Other	610	-	-	-	-	-
Debt service	-	-	-	-	-	-
Total expenditures	<u>324,526</u>	<u>83,277</u>	<u>212,645</u>	<u>629,847</u>	<u>400,624</u>	<u>33,372</u>
Excess (deficiency) of revenues over (under) expenditures	<u>89,264</u>	<u>2,523</u>	<u>35,254</u>	<u>38,160</u>	<u>(88,372)</u>	<u>8,709</u>
<b>Other financing sources (uses)</b>						
Issuance of GO and refunding GO bonds – par	-	-	-	-	-	-
Issuance of GO and refunding GO bonds – premium	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds – par	-	-	-	-	-	-
Issuance of revenue and refunding revenue bonds – premium	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-
Transfers in	37,167	8,573	1,029	4,156	79,716	985
Transfers out	(159,006)	(1,846)	(28,791)	(41,937)	(4)	(13,209)
Total other financing sources (uses)	<u>(121,839)</u>	<u>6,727</u>	<u>(27,762)</u>	<u>(37,781)</u>	<u>79,712</u>	<u>(12,224)</u>
Net change in fund balances	<u>(32,575)</u>	<u>9,250</u>	<u>7,492</u>	<u>379</u>	<u>(8,660)</u>	<u>(3,515)</u>
<b>Fund balances</b>						
Beginning of year	<u>262,142</u>	<u>134,166</u>	<u>170,786</u>	<u>3,312</u>	<u>176,877</u>	<u>177,115</u>
End of year	<u>\$ 229,567</u>	<u>\$ 143,416</u>	<u>\$ 178,278</u>	<u>\$ 3,691</u>	<u>\$ 168,217</u>	<u>\$ 173,600</u>

<b>Employment</b>	<b>Regulatory</b>	<b>Hawaiian Programs</b>	<b>Administrative Support</b>	<b>All Other</b>	<b>Total</b>	<b>Debt Service Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ -	\$ 2,000	\$ -	\$ -	\$ -	\$ 2,000	\$ -	\$ 2,000
-	-	-	1,947	-	26,947	-	26,947
-	-	-	-	1,662	84,933	-	84,933
-	2,148	-	-	-	2,148	-	2,148
-	-	-	-	-	132,974	-	132,974
-	-	-	-	-	53,187	-	53,187
1,340	-	-	-	-	19,409	-	19,409
<u>1,340</u>	<u>4,148</u>	<u>-</u>	<u>1,947</u>	<u>1,662</u>	<u>321,598</u>	<u>-</u>	<u>321,598</u>
97	526	6,937	1,945	182	16,274	-	16,274
1,978	26,891	3,161	69,249	26,448	264,880	-	264,880
40,366	309	19,468	23,334	47,548	1,313,926	-	1,313,926
-	-	16,930	989	4,899	35,207	-	35,207
1,251	4,776	-	226	2,333	16,753	-	16,753
-	37,952	-	253	508	45,823	-	45,823
-	-	-	1,799	34	63,705	-	63,705
512	209	6,028	9,423	10,147	67,468	-	67,468
<u>45,544</u>	<u>74,811</u>	<u>52,524</u>	<u>109,165</u>	<u>93,761</u>	<u>2,145,634</u>	<u>-</u>	<u>2,145,634</u>
2,106	18,391	-	36,800	14,102	77,128	-	77,128
4,393	40,655	-	20,530	49,906	117,649	-	117,649
-	-	-	-	-	324,011	-	324,011
-	-	-	163	107	63,313	-	63,313
-	-	-	-	-	212,424	-	212,424
-	-	-	12,737	1,131	621,664	-	621,664
-	-	-	6,202	-	402,186	-	402,186
-	-	-	-	-	19,627	-	19,627
-	-	-	11,228	18,815	45,928	-	45,928
-	-	40,908	50	-	43,269	-	43,269
53,870	-	-	-	-	88,576	-	88,576
-	-	-	5,712	-	6,322	-	6,322
-	-	-	-	-	-	780,756	780,756
<u>60,369</u>	<u>59,046</u>	<u>40,908</u>	<u>93,422</u>	<u>84,061</u>	<u>2,022,097</u>	<u>780,756</u>	<u>2,802,853</u>
<u>(14,825)</u>	<u>15,765</u>	<u>11,616</u>	<u>15,743</u>	<u>9,700</u>	<u>123,537</u>	<u>(780,756)</u>	<u>(657,219)</u>
-	-	-	-	-	-	616,760	616,760
-	-	-	-	-	-	135,231	135,231
-	-	-	-	-	-	101,090	101,090
-	-	-	-	-	-	25,989	25,989
-	-	-	-	-	-	(879,070)	(879,070)
-	-	-	206,123	4,107	341,856	780,756	1,122,612
<u>(204)</u>	<u>(3,912)</u>	<u>(3,044)</u>	<u>(7,484)</u>	<u>(5,185)</u>	<u>(264,622)</u>	<u>-</u>	<u>(264,622)</u>
<u>(204)</u>	<u>(3,912)</u>	<u>(3,044)</u>	<u>198,639</u>	<u>(1,078)</u>	<u>77,234</u>	<u>780,756</u>	<u>857,990</u>
<u>(15,029)</u>	<u>11,853</u>	<u>8,572</u>	<u>214,382</u>	<u>8,622</u>	<u>200,771</u>	<u>-</u>	<u>200,771</u>
<u>30,413</u>	<u>74,451</u>	<u>334,126</u>	<u>190,856</u>	<u>32,804</u>	<u>1,587,048</u>	<u>35</u>	<u>1,587,083</u>
<u>\$ 15,384</u>	<u>\$ 86,304</u>	<u>\$ 342,698</u>	<u>\$ 405,238</u>	<u>\$ 41,426</u>	<u>\$ 1,787,819</u>	<u>\$ 35</u>	<u>\$ 1,787,854</u>

**State of Hawaii**  
**Nonmajor Special Revenue Funds**  
**Combining Schedule of Revenues and Expenditures – Budget and Actual**  
**(Budgetary Basis)**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Highways			Natural Resources		
	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Revenue</b>						
Taxes						
Unemployment compensation tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Liquid fuel tax						
Highways	87,451	83,021	(4,430)	250	250	-
Vehicle registration fee tax	44,933	45,734	801	-	-	-
State vehicle weight tax	76,854	81,522	4,668	-	-	-
Rental/tour vehicle surcharge tax	52,460	53,187	727	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	6,800	6,800	-
Environmental response tax	-	-	-	3,800	3,801	1
Transient accommodations tax	-	-	-	-	2,400	2,400
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	<u>261,698</u>	<u>263,464</u>	<u>1,766</u>	<u>10,850</u>	<u>13,251</u>	<u>2,401</u>
Non-taxes						
Interest and investment income	1,143	2,788	1,645	1,014	1,439	425
Charges for current services	39,920	4,076	(35,844)	30,653	30,494	(159)
Intergovernmental	37,370	32,452	(4,918)	-	863	863
Rentals	1,000	1,000	-	8,926	9,576	650
Fines, forfeitures and penalties	4,825	5,215	390	68	59	(9)
Licenses and fees	1,909	2,167	258	716	712	(4)
Revenues from private sources	-	-	-	264	580	316
Other	63	40,109	40,046	3,022	12,892	9,870
Total non-taxes	<u>86,230</u>	<u>87,807</u>	<u>1,577</u>	<u>44,663</u>	<u>56,615</u>	<u>11,952</u>
Total revenues	<u>347,928</u>	<u>351,271</u>	<u>3,343</u>	<u>55,513</u>	<u>69,866</u>	<u>14,353</u>
<b>Expenditures</b>						
General government	-	-	-	6,277	4,890	1,387
Public safety	-	-	-	1,302	877	425
Highways	320,408	286,283	34,125	-	-	-
Conservation of natural resources	-	-	-	66,169	50,474	15,695
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Culture and recreation	-	-	-	9,508	6,016	3,492
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	1,842	612	1,230	-	-	-
Total expenditures	<u>322,250</u>	<u>286,895</u>	<u>35,355</u>	<u>83,256</u>	<u>62,257</u>	<u>20,999</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 25,678</u>	<u>\$ 64,376</u>	<u>\$ 38,698</u>	<u>\$ (27,743)</u>	<u>\$ 7,609</u>	<u>\$ 35,352</u>

Health			Human Services		
Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
5,487	5,718	231	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
23,368	25,000	1,632	-	-	-
-	-	-	-	-	-
1,116	1,267	151	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>29,971</u>	<u>31,985</u>	<u>2,014</u>	<u>-</u>	<u>-</u>	<u>-</u>
266	1,153	887	-	11	11
88,915	80,800	(8,115)	406	259	(147)
1,572	7,415	5,843	240	5,622	5,382
-	-	-	-	-	-
1,084	2,886	1,802	-	-	-
2,377	3,679	1,302	406	95	(311)
48,059	48,434	375	406	34	(372)
370	2,501	2,131	-	1,470	1,470
<u>142,643</u>	<u>146,868</u>	<u>4,225</u>	<u>1,458</u>	<u>7,491</u>	<u>6,033</u>
<u>172,614</u>	<u>178,853</u>	<u>6,239</u>	<u>1,458</u>	<u>7,491</u>	<u>6,033</u>
281	222	59	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
208,724	173,424	35,300	-	-	-
-	-	-	2,744	1,496	1,248
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>209,005</u>	<u>173,646</u>	<u>35,359</u>	<u>2,744</u>	<u>1,496</u>	<u>1,248</u>
<u>\$ (36,391)</u>	<u>\$ 5,207</u>	<u>\$ 41,598</u>	<u>\$ (1,286)</u>	<u>\$ 5,995</u>	<u>\$ 7,281</u>

(continued)

**State of Hawaii**  
**Nonmajor Special Revenue Funds**  
**Combining Schedule of Revenues and Expenditures – Budget and Actual**  
**(Budgetary Basis)**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Education			Economic Development		
	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Revenue</b>						
Taxes						
Unemployment compensation tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Liquid fuel tax						
Highways	-	-	-	-	-	-
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	-	-	-	3,700	3,801	101
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,700</u>	<u>3,801</u>	<u>101</u>
Non-taxes						
Interest and investment income	57	293	236	290	684	394
Charges for current services	41,470	37,162	(4,308)	18,819	18,989	170
Intergovernmental	5	2,082	2,077	-	1,415	1,415
Rentals	65	410	345	1,716	1,343	(373)
Fines, forfeitures and penalties	-	-	-	-	-	-
Licenses and fees	725	457	(268)	-	-	-
Revenues from private sources	226	290	64	2,269	130	(2,139)
Other	2,018	13,294	11,276	423	2,099	1,676
Total non-taxes	<u>44,566</u>	<u>53,988</u>	<u>9,422</u>	<u>23,517</u>	<u>24,660</u>	<u>1,143</u>
Total revenues	<u>44,566</u>	<u>53,988</u>	<u>9,422</u>	<u>27,217</u>	<u>28,461</u>	<u>1,244</u>
<b>Expenditures</b>						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	1,000	-	1,000
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	102,132	49,601	52,531	-	-	-
Culture and recreation	4,000	3,394	606	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	82,339	22,817	59,522
Other	-	-	-	-	-	-
Total expenditures	<u>106,132</u>	<u>52,995</u>	<u>53,137</u>	<u>84,439</u>	<u>22,817</u>	<u>61,622</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (61,566)</u>	<u>\$ 993</u>	<u>\$ 62,559</u>	<u>\$ (57,222)</u>	<u>\$ 5,644</u>	<u>\$ 62,866</u>

Employment			Regulatory		
Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
\$ -	\$ 362	\$ 362	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,200	978	(222)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	2,000	2,148	148
<u>1,200</u>	<u>1,340</u>	<u>140</u>	<u>4,000</u>	<u>4,148</u>	<u>148</u>
40	39	(1)	178	526	348
16,190	1,978	(14,212)	23,075	26,891	3,816
-	1,178	1,178	-	309	309
-	-	-	-	-	-
85	1,251	1,166	962	4,775	3,813
-	-	-	35,888	37,952	2,064
-	-	-	-	-	-
-	190	190	4,241	4,707	466
<u>16,315</u>	<u>4,636</u>	<u>(11,679)</u>	<u>64,344</u>	<u>75,160</u>	<u>10,816</u>
<u>17,515</u>	<u>5,976</u>	<u>(11,539)</u>	<u>68,344</u>	<u>79,308</u>	<u>10,964</u>
-	-	-	15,267	13,645	1,622
2,981	1,902	1,079	57,586	45,629	11,957
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
8,988	2,534	6,454	-	-	-
-	-	-	-	-	-
<u>11,969</u>	<u>4,436</u>	<u>7,533</u>	<u>72,853</u>	<u>59,274</u>	<u>13,579</u>
<u>\$ 5,546</u>	<u>\$ 1,540</u>	<u>\$ (4,006)</u>	<u>\$ (4,509)</u>	<u>\$ 20,034</u>	<u>\$ 24,543</u>

(continued)



**State of Hawaii**  
**Nonmajor Special Revenue Funds**  
**Combining Schedule of Revenues and Expenditures – Budget and Actual**  
**(Budgetary Basis)**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Hawaiian Programs			Administrative Support		
	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Revenue</b>						
Taxes						
Unemployment compensation tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Liquid fuel tax						
Highways	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	1,652	1,947	295
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,652</u>	<u>1,947</u>	<u>295</u>
Non-taxes						
Interest and investment income	105	329	224	607	1,936	1,329
Charges for current services	-	11	11	55,894	70,534	14,640
Intergovernmental	-	-	-	-	817	817
Rentals	11,947	15,742	3,795	6,235	5,820	(415)
Fines, forfeitures and penalties	-	-	-	225	226	1
Licenses and fees	-	-	-	80	253	173
Revenues from private sources	-	-	-	1,646	1,799	153
Other	4,120	9,575	5,455	13,894	213,266	199,372
Total non-taxes	<u>16,172</u>	<u>25,657</u>	<u>9,485</u>	<u>78,581</u>	<u>294,651</u>	<u>216,070</u>
Total revenues	<u>16,172</u>	<u>25,657</u>	<u>9,485</u>	<u>80,233</u>	<u>296,598</u>	<u>216,365</u>
<b>Expenditures</b>						
General government	-	-	-	102,344	36,372	65,972
Public safety	-	-	-	13,654	12,820	834
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	285	-	285
Health	-	-	-	-	-	-
Welfare	-	-	-	597	500	97
Lower education	-	-	-	7,328	6,202	1,126
Culture and recreation	-	-	-	13,479	10,660	2,819
Urban redevelopment and housing	17,951	10,132	7,819	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	-	-	-	27,807	5,944	21,863
Total expenditures	<u>17,951</u>	<u>10,132</u>	<u>7,819</u>	<u>165,494</u>	<u>72,498</u>	<u>92,996</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,779)</u>	<u>\$ 15,525</u>	<u>\$ 17,304</u>	<u>\$ (85,261)</u>	<u>\$ 224,100</u>	<u>\$ 309,361</u>

All Other			Total Special Revenue Funds		
Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ 362	\$ 362
-	-	-	87,701	83,271	(4,430)
-	-	-	50,420	51,452	1,032
-	-	-	76,854	81,522	4,668
-	-	-	52,460	53,187	727
-	-	-	1,200	978	(222)
-	-	-	25,020	26,947	1,927
-	-	-	6,800	6,800	-
-	-	-	8,616	8,869	253
-	-	-	-	2,400	2,400
-	-	-	2,000	2,000	-
-	-	-	2,000	2,148	148
-	-	-	313,071	319,936	6,865
31	127	96	3,731	9,325	5,594
9,540	16,085	6,545	324,882	287,279	(37,603)
1,544	3,860	2,316	40,731	56,013	15,282
-	-	-	29,889	33,891	4,002
2,519	2,295	(224)	9,768	16,707	6,939
695	508	(187)	42,796	45,823	3,027
35	34	(1)	52,905	51,301	(1,604)
7,557	10,180	2,623	35,708	310,283	274,575
21,921	33,089	11,168	540,410	810,622	270,212
21,921	33,089	11,168	853,481	1,130,558	277,077
19,108	15,313	3,795	143,277	70,442	72,835
20,864	14,013	6,851	97,487	75,241	22,246
-	-	-	320,408	286,283	34,125
-	-	-	67,454	50,474	16,980
-	-	-	208,724	173,424	35,300
1,550	1,131	419	4,891	3,127	1,764
-	-	-	109,460	55,803	53,657
19,412	18,398	1,014	46,399	38,468	7,931
-	-	-	17,951	10,132	7,819
-	-	-	91,327	25,351	65,976
-	-	-	29,649	6,556	23,093
60,934	48,855	12,079	1,137,027	795,301	341,726
\$ (39,013)	\$ (15,766)	\$ 23,247	\$ (283,546)	\$ 335,257	\$ 618,803

(concluded)

**State of Hawaii**  
**Nonmajor Special Revenue Funds**  
**Reconciliation of the Budgetary to GAAP Basis**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

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Excess of revenues over expenditures – actual (budgetary basis)	\$ 335,257
Reserve for encumbrance at year end *	184,345
Expenditures for liquidation of prior fiscal year encumbrances	(628,411)
Expenditures for unbudgeted programs, principally expenditures for capital projects accounts and revolving funds	243,837
Transfers	(9,913)
Accrued liabilities	(454,290)
Accrued revenues	<u>452,712</u>
Excess of revenues over expenditures – GAAP basis	<u>\$ 123,537</u>

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

**State of Hawaii**  
**Nonmajor Proprietary Funds**  
**Combining Statement of Fund Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

	<b>Employer- Union Trust Fund</b>	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Loan Fund</b>	<b>Total Nonmajor Proprietary Funds</b>
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 8,816	\$ 152,458	\$ 42,672	\$ 203,946
Investments	37,127	-	-	37,127
<b>Receivables</b>				
Accounts and accrued interest	-	684	239	923
Promissory note receivable	-	31,569	7,955	39,524
Federal government	-	-	253	253
Premiums	69,423	-	-	69,423
Other	12,951	532	643	14,126
Prepaid expenses and other assets	5,508	-	-	5,508
Total current assets	<u>133,825</u>	<u>185,243</u>	<u>51,762</u>	<u>370,830</u>
Capital assets – equipment	10,498	85	2,511	13,094
Less: Accumulated depreciation	<u>(10,046)</u>	<u>(83)</u>	<u>(1,879)</u>	<u>(12,008)</u>
Net capital assets	452	2	632	1,086
Promissory note receivable	-	334,378	148,898	483,276
Total noncurrent assets	<u>452</u>	<u>334,380</u>	<u>149,530</u>	<u>484,362</u>
Total assets	<u>134,277</u>	<u>519,623</u>	<u>201,292</u>	<u>855,192</u>
<b>Deferred outflows of resources</b>				
Deferred outflows on net pension liability	<u>2,355</u>	<u>1,422</u>	<u>613</u>	<u>4,390</u>
Total deferred outflows of resources	<u>\$ 2,355</u>	<u>\$ 1,422</u>	<u>\$ 613</u>	<u>\$ 4,390</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Vouchers and contracts payable	\$ 460	\$ 162	\$ 405	\$ 1,027
Other accrued liabilities	2,139	-	-	2,139
Benefits claims payable	4,668	-	-	4,668
Accrued vacation, current portion	95	72	59	226
Premiums payable	43,854	-	-	43,854
Total current liabilities	<u>51,216</u>	<u>234</u>	<u>464</u>	<u>51,914</u>
<b>Noncurrent liabilities</b>				
Accrued vacation	192	183	160	535
Net pension liability	5,886	3,850	2,517	12,253
Other postemployment benefit liability	<u>3,632</u>	<u>1,615</u>	<u>977</u>	<u>6,224</u>
Total noncurrent liabilities	<u>9,710</u>	<u>5,648</u>	<u>3,654</u>	<u>19,012</u>
Total liabilities	<u>60,926</u>	<u>5,882</u>	<u>4,118</u>	<u>70,926</u>
<b>Deferred inflows of resources</b>				
Deferred inflows on net pension liability	<u>120</u>	<u>66</u>	<u>54</u>	<u>240</u>
Total deferred inflows of resources	<u>120</u>	<u>66</u>	<u>54</u>	<u>240</u>
<b>Net position</b>				
Net investment in capital assets	452	1	632	1,085
Restricted for bond requirements and other	-	515,096	197,101	712,197
Unrestricted	<u>75,134</u>	<u>-</u>	<u>-</u>	<u>75,134</u>
Total net position	<u>\$ 75,586</u>	<u>\$ 515,097</u>	<u>\$ 197,733</u>	<u>\$ 788,416</u>

**State of Hawaii**  
**Nonmajor Proprietary Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Employer- Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total Nonmajor Proprietary Funds
<b>Operating revenues</b>				
Administrative fees	\$ -	\$ 1,659	\$ 2,225	\$ 3,884
Premium revenue – self insurance	91,623	-	-	91,623
Experience overpayments, net	30,683	-	-	30,683
Other	3,983	1,419	483	5,885
Total operating revenues	<u>126,289</u>	<u>3,078</u>	<u>2,708</u>	<u>132,075</u>
<b>Operating expenses</b>				
Personnel services	4,806	1,847	1,614	8,267
Depreciation	774	2	197	973
Repairs and maintenance	11	-	127	138
General administration	2,817	574	684	4,075
Claims	89,608	-	-	89,608
Other	2,154	1,042	4,651	7,847
Total operating expenses	<u>100,170</u>	<u>3,465</u>	<u>7,273</u>	<u>110,908</u>
Operating income (loss)	26,119	(387)	(4,565)	21,167
<b>Nonoperating revenues</b>				
Interest and investment income	903	1,451	571	2,925
Income (loss) before capital contributions	<u>27,022</u>	<u>1,064</u>	<u>(3,994)</u>	<u>24,092</u>
Capital contributions	-	12,361	14,854	27,215
Change in net position	<u>27,022</u>	<u>13,425</u>	<u>10,860</u>	<u>51,307</u>
<b>Net position</b>				
Beginning of year, as previously reported	48,564	501,722	186,926	737,212
Adjustment for change in accounting principle	-	(50)	(53)	(103)
Beginning of year, as restated	<u>48,564</u>	<u>501,672</u>	<u>186,873</u>	<u>737,109</u>
End of year	<u>\$ 75,586</u>	<u>\$ 515,097</u>	<u>\$ 197,733</u>	<u>\$ 788,416</u>

**State of Hawaii**  
**Nonmajor Proprietary Funds**  
**Combining Statement of Cash Flows**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Employer- Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total Nonmajor Proprietary Funds
<b>Cash flows from operating activities</b>				
Cash received from employers and employees for premiums and benefits	\$ 596,464	\$ -	\$ -	\$ 596,464
Cash paid to suppliers	(3,095)	(134)	(785)	(4,014)
Cash paid to employees	(3,619)	(1,750)	(1,513)	(6,882)
Cash paid for premiums and benefits payable	(600,069)	-	-	(600,069)
Net cash used in operating activities	<u>(10,319)</u>	<u>(1,884)</u>	<u>(2,298)</u>	<u>(14,501)</u>
<b>Cash flows from noncapital financing activities</b>				
Proceeds from federal operating grants	-	10,033	12,805	22,838
<b>Cash flows from capital financing activities</b>				
Purchase of equipment	(7)	-	(109)	(116)
State capital contributions	-	2,172	1,769	3,941
Net cash provided by (used in) capital financing activities	<u>(7)</u>	<u>2,172</u>	<u>1,660</u>	<u>3,825</u>
<b>Cash flows from investing activities</b>				
Purchase of investments	(4,506)	-	-	(4,506)
Principal repayments on notes receivable	-	30,067	23,993	54,060
Disbursement of notes receivable proceeds	-	(46,563)	(49,101)	(95,664)
Interest income from notes receivable	-	1,443	462	1,905
Administrative loan fees	-	1,630	2,315	3,945
Proceeds from sales and maturities of investments	3,594	-	-	3,594
Interest from and change in fair value of investments	903	1,165	445	2,513
Net cash used in investing activities	<u>(9)</u>	<u>(12,258)</u>	<u>(21,886)</u>	<u>(34,153)</u>
Net decrease in cash and cash equivalents	<u>(10,335)</u>	<u>(1,937)</u>	<u>(9,719)</u>	<u>(21,991)</u>
<b>Cash and cash equivalents, including restricted amounts</b>				
Beginning of year	19,151	154,395	52,391	225,937
End of year	<u>\$ 8,816</u>	<u>\$ 152,458</u>	<u>\$ 42,672</u>	<u>\$ 203,946</u>
<b>Reconciliation of operating income (loss) to net cash used in operating activities</b>				
Operating income (loss)	\$ 26,119	\$ (387)	\$ (4,565)	\$ 21,167
Adjustments to reconcile operating income (loss) to net cash used in operating activities				
Depreciation	774	2	197	973
Principal forgiveness of loan	-	1,191	4,387	5,578
Interest income from loans	-	(1,419)	(483)	(1,902)
Administrative loan fees	-	(1,659)	(2,225)	(3,884)
Non-imposed fringe benefits	-	18	15	33
Premium reserves held by insurance companies	(35,673)	-	-	(35,673)
Change in assets, deferred outflows, liabilities and deferred inflows				
Receivables	(1,573)	30	17	(1,526)
Prepaid and other expenses	(231)	-	-	(231)
Net deferred outflows/inflows of resources related to pensions	(1,731)	(1,045)	(846)	(3,622)
Vouchers and contracts payable	(36)	(1)	84	47
Net pension liability	2,304	1,297	1,036	4,637
Other postemployment benefits	532	89	85	706
Other accrued liabilities	(759)	-	-	(759)
Benefits claim payable	(45)	-	-	(45)
Net cash used in operating activities	<u>\$ (10,319)</u>	<u>\$ (1,884)</u>	<u>\$ (2,298)</u>	<u>\$ (14,501)</u>
<b>Supplemental information</b>				
Noncash investing, capital and financing activities				
In-kind contribution from the Environmental Protection Agency	\$ -	\$ 156	\$ 141	\$ 297

**State of Hawaii**  
**Fiduciary Funds**  
**Combining Statement of Fiduciary Net Position – Agency Funds**  
**June 30, 2017**  
**(Amounts in thousands)**

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	<b>Agency Funds</b>			<b>Total Agency Funds</b>
	<b>Tax Collections</b>	<b>Custodial</b>	<b>Other</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 4,332	\$ 106,581	\$ 7,856	\$ 118,769
Receivables – taxes	-	-	51,290	51,290
Investments	57,558	281,902	99,623	439,083
Other assets, primarily due from individuals, businesses and counties	3,224	82,571	-	85,795
<b>Total assets</b>	<b>\$ 65,114</b>	<b>\$ 471,054</b>	<b>\$ 158,769</b>	<b>\$ 694,937</b>
<b>Liabilities</b>				
Vouchers payable	\$ 65,114	\$ 50	\$ 60	\$ 65,224
Due to individuals, businesses and counties	-	471,004	158,709	629,713
<b>Total liabilities</b>	<b>\$ 65,114</b>	<b>\$ 471,054</b>	<b>\$ 158,769</b>	<b>\$ 694,937</b>

**State of Hawaii**  
**Fiduciary Funds**  
**Combining Statement of Changes in Assets and Liabilities – Agency Funds**  
**Year Ended June 30, 2017**  
**(Amounts in thousands)**

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
<b>Tax collections</b>				
Assets				
Cash and cash equivalents	\$ 8,158	\$ 8,767,057	\$ (8,770,883)	\$ 4,332
Due from individuals, businesses and counties	10,595	8,759,686	(8,767,057)	3,224
Investments	50,116	57,558	(50,116)	57,558
Total assets	<u>\$ 68,869</u>	<u>\$ 17,584,301</u>	<u>\$ (17,588,056)</u>	<u>\$ 65,114</u>
Liabilities				
Vouchers payable	<u>\$ 68,869</u>	<u>\$ 65,114</u>	<u>\$ (68,869)</u>	<u>\$ 65,114</u>
Total liabilities	<u>\$ 68,869</u>	<u>\$ 65,114</u>	<u>\$ (68,869)</u>	<u>\$ 65,114</u>
<b>Custodial</b>				
Assets				
Cash and cash equivalents	\$ 114,086	\$ 4,700,700	\$ (4,708,205)	\$ 106,581
Due from individuals, businesses and counties	77,709	587,262	(582,400)	82,571
Investments	205,326	179,476	(102,900)	281,902
Total assets	<u>\$ 397,121</u>	<u>\$ 5,467,438</u>	<u>\$ (5,393,505)</u>	<u>\$ 471,054</u>
Liabilities				
Vouchers payable	\$ 117	\$ 50	\$ (117)	\$ 50
Due to individuals, businesses and counties	397,004	4,909,389	(4,835,389)	471,004
Total liabilities	<u>\$ 397,121</u>	<u>\$ 4,909,439</u>	<u>\$ (4,835,506)</u>	<u>\$ 471,054</u>
<b>Other</b>				
Assets				
Cash and cash equivalents	\$ 12,591	\$ 60,145	\$ (64,880)	\$ 7,856
Receivables	46,129	51,290	(46,129)	51,290
Investments	74,422	99,623	(74,422)	99,623
Total assets	<u>\$ 133,142</u>	<u>\$ 211,058</u>	<u>\$ (185,431)</u>	<u>\$ 158,769</u>
Liabilities				
Vouchers payable	\$ 83	\$ 59	\$ (82)	\$ 60
Due to individuals, businesses and counties	133,059	65,306	(39,656)	158,709
Total liabilities	<u>\$ 133,142</u>	<u>\$ 65,365</u>	<u>\$ (39,738)</u>	<u>\$ 158,769</u>
<b>Total – All agency funds</b>				
Assets				
Cash and cash equivalents	\$ 134,835	\$ 13,527,902	\$ (13,543,968)	\$ 118,769
Receivables	46,129	51,290	(46,129)	51,290
Due from individuals, businesses and counties	88,304	9,346,948	(9,349,457)	85,795
Investments	329,864	336,657	(227,438)	439,083
Total assets	<u>\$ 599,132</u>	<u>\$ 23,262,797</u>	<u>\$ (23,166,992)</u>	<u>\$ 694,937</u>
Liabilities				
Vouchers payable	\$ 69,069	\$ 65,223	\$ (69,068)	\$ 65,224
Due to individuals, businesses and counties	530,063	4,974,695	(4,875,045)	629,713
Total liabilities	<u>\$ 599,132</u>	<u>\$ 5,039,918</u>	<u>\$ (4,944,113)</u>	<u>\$ 694,937</u>



## **PART III: STATISTICAL SECTION**

**State of Hawaii**  
**Statistical Section (Unaudited)**  
**June 30, 2017**

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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.

<b><u>Contents</u></b>	<b><u>Page(s)</u></b>
<b>Financial Trends Information:</b> These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	148–157
<b>Revenue Capacity Information:</b> These schedules contain information to help the reader assess the State's most significant local revenue sources, the general excise tax and net income tax.	158–165
<b>Debt Capacity Information:</b> These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	166–172
<b>Demographic and Economic Information:</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	173–175
<b>Operating Information:</b> These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services provided and the activities performed by the State.	176–181

**Sources:** *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

**State of Hawaii**  
**Financial Trends Information**  
**Net Position by Component (Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands)**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Governmental activities</b>					
Net investment in capital assets	\$ 2,787,289	\$ 2,727,055	\$ 2,826,649	\$ 2,772,220	\$ 2,863,379
Restricted	1,799,903	1,591,701	1,445,824	1,128,678	1,051,548
Unrestricted	<u>(7,996,567)</u>	<u>(7,190,837)</u>	<u>(7,379,890)</u>	<u>(3,096,065)</u>	<u>(2,669,391)</u>
Total governmental activities net position	<u>\$ (3,409,375)</u>	<u>\$ (2,872,081)</u>	<u>\$ (3,107,417)</u>	<u>\$ 804,833</u>	<u>\$ 1,245,536</u>
<b>Business-type activities</b>					
Net investment in capital assets	\$ 2,022,844	\$ 1,871,554	\$ 1,773,613	\$ 1,653,902	\$ 1,599,483
Restricted	1,309,392	1,305,799	1,227,441	1,160,551	1,068,146
Unrestricted	<u>1,141,536</u>	<u>1,058,108</u>	<u>995,207</u>	<u>1,050,981</u>	<u>899,740</u>
Total business-type activities net position	<u>\$ 4,473,772</u>	<u>\$ 4,235,461</u>	<u>\$ 3,996,261</u>	<u>\$ 3,865,434</u>	<u>\$ 3,567,369</u>
<b>Primary government</b>					
Net investment in capital assets	\$ 4,810,133	\$ 4,598,609	\$ 4,600,262	\$ 4,426,122	\$ 4,462,862
Restricted	3,109,295	2,897,500	2,673,265	2,289,229	2,119,694
Unrestricted	<u>(6,855,031)</u>	<u>(6,132,729)</u>	<u>(6,384,683)</u>	<u>(2,045,084)</u>	<u>(1,769,651)</u>
Total primary government net position	<u>\$ 1,064,397</u>	<u>\$ 1,363,380</u>	<u>\$ 888,844</u>	<u>\$ 4,670,267</u>	<u>\$ 4,812,905</u>

**Notes:** Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

Amounts prior to fiscal 2015 have not been restated for GASB Statements No. 68 and No. 71.

Amounts prior to fiscal 2017 have not been restated for GASB Statement No. 82.

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<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 2,794,481	\$ 3,326,245	\$ 3,118,606	\$ 3,298,144	\$ 3,987,244
930,294	917,730	655,238	641,031	909,877
<u>(2,394,874)</u>	<u>(2,384,187)</u>	<u>(1,306,716)</u>	<u>(471,543)</u>	<u>121,480</u>
\$ 1,329,901	\$ 1,859,788	\$ 2,467,128	\$ 3,467,632	\$ 5,018,601
\$ 1,560,267	\$ 1,476,136	\$ 1,469,676	\$ 1,527,018	\$ 1,458,305
966,042	956,894	922,846	782,569	730,061
<u>649,583</u>	<u>579,383</u>	<u>493,163</u>	<u>597,624</u>	<u>1,013,447</u>
\$ 3,175,892	\$ 3,012,413	\$ 2,885,685	\$ 2,907,211	\$ 3,201,813
\$ 4,354,748	\$ 4,802,381	\$ 4,588,282	\$ 4,825,162	\$ 5,445,549
1,896,336	1,874,624	1,578,084	1,423,600	1,639,938
<u>(1,745,291)</u>	<u>(1,804,804)</u>	<u>(813,553)</u>	<u>126,081</u>	<u>1,134,927</u>
\$ 4,505,793	\$ 4,872,201	\$ 5,352,813	\$ 6,374,843	\$ 8,220,414

**State of Hawaii**  
**Financial Trends Information**  
**Changes in Net Position (Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
<b>Expenses</b>					
<b>Governmental activities</b>					
General government	\$ 631,052	\$ 688,394	\$ 595,278	\$ 567,941	\$ 531,839
Public safety	552,671	485,985	504,343	533,727	451,946
Highways	457,374	399,997	426,142	554,039	490,091
Conservation of natural resources	161,924	107,740	89,176	101,587	52,208
Health	889,216	878,610	871,563	849,493	813,190
Welfare	3,481,679	3,343,392	3,196,602	2,879,813	2,798,053
Lower education	3,157,517	2,840,782	2,729,789	2,685,037	2,592,125
Higher education	899,199	673,217	761,837	693,292	654,611
Other education	27,248	23,379	21,664	21,766	20,086
Culture and recreation	106,875	106,511	84,265	104,303	94,679
Urban redevelopment and housing	245,819	122,981	115,653	137,160	173,677
Economic development and assistance	161,077	163,935	179,485	166,455	172,602
Interest expense	212,042	210,204	247,059	239,760	241,677
Total governmental activities expenses	<u>10,983,693</u>	<u>10,045,127</u>	<u>9,822,856</u>	<u>9,534,373</u>	<u>9,086,784</u>
<b>Business-type activities</b>					
Airports	408,517	377,393	350,041	346,699	366,918
Harbors	101,180	93,088	87,031	89,327	90,548
Unemployment compensation	173,735	144,481	186,893	244,947	336,931
Nonmajor proprietary funds	110,907	112,323	112,209	87,031	66,119
Total business-type activities expenses	<u>794,339</u>	<u>727,285</u>	<u>736,174</u>	<u>768,004</u>	<u>860,516</u>
Total primary government expenses	<u>\$ 11,778,032</u>	<u>\$ 10,772,412</u>	<u>\$ 10,559,030</u>	<u>\$ 10,302,377</u>	<u>\$ 9,947,300</u>
<b>Program revenues</b>					
<b>Governmental activities</b>					
<b>Charges for services</b>					
General government	\$ 289,116	\$ 209,598	\$ 248,915	\$ 223,066	\$ 267,081
Health	143,363	136,429	136,547	130,338	56,963
Other	357,034	371,823	314,099	287,937	170,603
Operating grants and contributions	3,068,752	2,986,842	2,809,460	2,660,770	2,589,537
Capital grants and contributions	-	113,006	139,977	97,290	96,184
Total governmental activities program revenues	<u>3,858,265</u>	<u>3,817,698</u>	<u>3,648,998</u>	<u>3,399,401</u>	<u>3,180,368</u>
<b>Business-type activities</b>					
<b>Charges for services</b>					
Airports	511,018	459,269	434,489	404,442	431,708
Unemployment compensation	176,212	187,215	239,375	353,546	507,096
Others	269,694	218,552	238,852	203,979	215,243
Capital grants and contributions	51,091	80,173	72,140	98,628	64,313
Total business-type activities program revenues	<u>1,008,015</u>	<u>945,209</u>	<u>984,856</u>	<u>1,060,595</u>	<u>1,218,360</u>
Total primary government program revenues	<u>\$ 4,866,280</u>	<u>\$ 4,762,907</u>	<u>\$ 4,633,854</u>	<u>\$ 4,459,996</u>	<u>\$ 4,398,728</u>
<b>Net (expense) revenue</b>					
Governmental activities	\$ (7,125,428)	\$ (6,227,429)	\$ (6,173,858)	\$ (6,134,972)	\$ (5,906,416)
Business-type activities	213,676	217,924	248,682	292,591	357,844
Total primary government net expenses	<u>\$ (6,911,752)</u>	<u>\$ (6,009,505)</u>	<u>\$ (5,925,176)</u>	<u>\$ (5,842,381)</u>	<u>\$ (5,548,572)</u>

**Notes:** Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

Amounts prior to fiscal 2015 have not been restated for GASB Statements No. 68 and No. 71.

Amounts prior to fiscal 2017 have not been restated for GASB Statement No. 82.

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$	552,788	\$ 535,434	\$ 421,327	\$ 564,356	\$ 548,439
	502,002	471,459	538,110	464,897	414,463
	516,924	450,548	466,322	487,391	490,754
	96,349	89,021	81,561	119,705	74,411
	773,288	816,525	858,476	843,826	895,413
	2,464,582	2,553,829	2,348,190	2,140,202	1,877,188
	2,598,444	2,545,980	2,616,768	2,656,592	2,385,056
	672,716	707,381	700,335	878,126	815,116
	16,753	14,018	14,034	29,935	23,206
	111,628	108,697	108,247	106,583	107,676
	23,888	66,144	101,505	145,710	187,861
	209,460	238,315	209,611	158,808	157,421
	243,938	239,836	210,243	127,576	140,032
	<u>8,782,760</u>	<u>8,837,187</u>	<u>8,674,729</u>	<u>8,723,707</u>	<u>8,117,036</u>
	353,541	354,368	336,127	347,089	354,554
	84,826	80,355	68,291	124,611	80,344
	468,610	561,548	686,141	437,553	159,098
	169,166	250,346	256,205	38,672	22,619
	<u>1,076,143</u>	<u>1,246,617</u>	<u>1,346,764</u>	<u>947,925</u>	<u>616,615</u>
\$	<u>9,858,903</u>	<u>\$ 10,083,804</u>	<u>\$ 10,021,493</u>	<u>\$ 9,671,632</u>	<u>\$ 8,733,651</u>
\$	266,878	\$ 270,078	\$ 231,629	\$ 206,431	\$ 203,336
	32,339	46,215	98,547	99,788	102,032
	121,928	112,479	111,295	119,126	101,390
	2,370,437	2,837,464	2,598,141	2,260,551	1,887,298
	97,322	132,825	144,445	145,771	130,643
	<u>2,888,904</u>	<u>3,399,061</u>	<u>3,184,057</u>	<u>2,831,667</u>	<u>2,424,699</u>
	343,279	387,484	324,577	290,464	266,820
	533,963	535,243	486,476	169,976	87,486
	272,317	341,707	344,889	84,692	95,013
	85,899	75,324	98,099	103,195	81,967
	<u>1,235,458</u>	<u>1,339,758</u>	<u>1,254,041</u>	<u>648,327</u>	<u>531,286</u>
\$	<u>4,124,362</u>	<u>\$ 4,738,819</u>	<u>\$ 4,438,098</u>	<u>\$ 3,479,994</u>	<u>\$ 2,955,985</u>
\$	(5,893,856)	\$ (5,438,126)	\$ (5,490,672)	\$ (5,892,040)	\$ (5,692,337)
	159,315	93,141	(92,723)	(299,598)	(85,329)
\$	<u>(5,734,541)</u>	<u>\$ (5,344,985)</u>	<u>\$ (5,583,395)</u>	<u>\$ (6,191,638)</u>	<u>\$ (5,777,666)</u>

(continued)

**State of Hawaii**  
**Financial Trends Information**  
**Changes in Net Position (Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
<b>General revenues and other changes in net position</b>					
Governmental activities					
Taxes					
General excise tax	\$ 3,189,599	\$ 3,192,469	\$ 3,021,418	\$ 2,816,346	\$ 2,991,792
Net income tax – corporations and individuals	2,330,408	2,160,872	2,073,015	1,840,890	1,795,683
Public service companies tax	122,159	152,760	163,481	166,179	163,930
Transient accommodations tax	299,712	233,082	202,345	188,721	186,377
Tobacco and liquor tax	160,906	161,239	165,137	155,990	161,066
Liquid fuel tax	84,933	89,702	88,449	88,707	87,645
Tax on premiums of insurance companies	166,836	154,690	147,767	139,074	133,585
Vehicle weight and registration tax	132,974	130,051	125,113	124,686	121,605
Rental motor/tour vehicle surcharge tax	53,189	54,873	51,941	42,853	52,112
Franchise tax	11,174	14,691	19,930	38,983	22,673
Other tax	103,204	109,072	76,222	96,131	80,081
Interest and investment income	30,676	22,564	16,024	13,163	25,502
Other	-	(13,300)	-	-	-
Total governmental activities	<u>6,685,770</u>	<u>6,462,765</u>	<u>6,150,842</u>	<u>5,711,723</u>	<u>5,822,051</u>
Business-type activities					
Interest and investment income	25,324	21,276	17,567	12,805	14,633
Other	-	-	-	-	19,000
Total business-type activities	<u>25,324</u>	<u>21,276</u>	<u>17,567</u>	<u>12,805</u>	<u>33,633</u>
Total primary government	<u>\$ 6,711,094</u>	<u>\$ 6,484,041</u>	<u>\$ 6,168,409</u>	<u>\$ 5,724,528</u>	<u>\$ 5,855,684</u>
<b>Changes in net position</b>					
Governmental activities	\$ (439,658)	\$ 235,336	\$ (23,016)	\$ (423,249)	\$ (84,365)
Business-type activities	239,000	239,200	266,249	305,396	391,477
Total primary government	<u>\$ (200,658)</u>	<u>\$ 474,536</u>	<u>\$ 243,233</u>	<u>\$ (117,853)</u>	<u>\$ 307,112</u>

**Note:** Amounts prior to fiscal 2014 have not been restated for GASB Statement No. 65.

Amounts prior to fiscal 2015 have not been restated for GASB Statements No. 68 and No. 71.

Amounts prior to fiscal 2017 have not been restated for GASB Statement No. 82.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 2,774,636	\$ 2,507,980	\$ 2,279,310	\$ 2,410,756	\$ 2,597,121
1,633,085	1,477,624	1,408,965	1,366,576	1,634,117
150,528	117,940	157,661	126,069	127,481
138,529	60,839	32,635	14,408	17,756
170,824	173,851	149,596	135,388	134,886
88,842	91,265	82,780	88,006	90,123
119,472	140,586	105,848	95,181	96,332
98,187	59,476	58,659	59,392	60,842
106,417	43,892	40,401	39,751	49,196
7,229	33,682	20,666	28,075	20,213
70,873	67,799	32,165	19,215	26,149
5,347	55,852	124,516	(42,051)	112,024
-	-	(3,034)	305	106
<u>5,363,969</u>	<u>4,830,786</u>	<u>4,490,168</u>	<u>4,341,071</u>	<u>4,966,346</u>
4,164	33,587	68,950	4,639	48,893
-	-	-	-	-
<u>4,164</u>	<u>33,587</u>	<u>68,950</u>	<u>4,639</u>	<u>48,893</u>
<u>\$ 5,368,133</u>	<u>\$ 4,864,373</u>	<u>\$ 4,559,118</u>	<u>\$ 4,345,710</u>	<u>\$ 5,015,239</u>
\$ (529,887)	\$ (607,340)	\$ (1,000,504)	\$ (1,550,969)	\$ (725,991)
163,479	126,728	(23,773)	(294,959)	(36,436)
<u>\$ (366,408)</u>	<u>\$ (480,612)</u>	<u>\$ (1,024,277)</u>	<u>\$ (1,845,928)</u>	<u>\$ (762,427)</u>

(concluded)



**State of Hawaii**  
**Financial Trends Information**  
**Fund Balances – Governmental Funds (Modified Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
<b>General Fund</b>					
Reserved	N/A	N/A	N/A	N/A	N/A
Unreserved	N/A	N/A	N/A	N/A	N/A
Total General Fund	N/A	N/A	N/A	N/A	N/A
<b>All other governmental funds</b>					
Reserved	N/A	N/A	N/A	N/A	N/A
Unreserved, reported in					
Capital projects fund	N/A	N/A	N/A	N/A	N/A
Special revenue funds	N/A	N/A	N/A	N/A	N/A
Total all other governmental funds	N/A	N/A	N/A	N/A	N/A
<b>General Fund (under GASB 54)</b>					
Assigned fund balance	\$ 400,529	\$ 394,581	\$ 205,242	\$ 256,483	\$ 271,020
Unassigned fund balance	1,305,542	1,400,783	1,384,053	1,079,180	1,154,253
Total General Fund	<u>\$ 1,706,071</u>	<u>\$ 1,795,364</u>	<u>\$ 1,589,295</u>	<u>\$ 1,335,663</u>	<u>\$ 1,425,273</u>
<b>All other governmental funds (under GASB 54)</b>					
Restricted fund balance	\$ 110,750	\$ 15,557	\$ 25,370	\$ 27,145	\$ 21,854
Committed fund balance	688,980	401,313	449,290	497,932	486,240
Assigned fund balance	1,117,520	1,199,080	1,009,503	739,279	612,762
Unassigned fund balance	<u>(116,880)</u>	<u>(340,671)</u>	<u>(576,980)</u>	<u>(588,405)</u>	<u>(611,097)</u>
Total all other governmental funds	<u>\$ 1,800,370</u>	<u>\$ 1,275,279</u>	<u>\$ 907,183</u>	<u>\$ 675,951</u>	<u>\$ 509,759</u>

**Note:** Beginning fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement No. 54. Fund balance has not been restated for prior years.

N/A Not applicable.

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<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
N/A	N/A	\$ 243,485	\$ 272,557	\$ 406,884
N/A	N/A	(210,551)	(87,537)	567,474
<u>N/A</u>	<u>N/A</u>	<u>\$ 32,934</u>	<u>\$ 185,020</u>	<u>\$ 974,358</u>
N/A	N/A	\$ 2,275,968	\$ 2,801,012	\$ 2,344,961
N/A	N/A	(1,651,855)	(2,019,696)	(1,788,357)
N/A	N/A	293,625	255,844	410,265
<u>N/A</u>	<u>N/A</u>	<u>\$ 917,738</u>	<u>\$ 1,037,160</u>	<u>\$ 966,869</u>
\$ 236,779	\$ 210,164	N/A	N/A	N/A
570,659	346,882	N/A	N/A	N/A
<u>\$ 807,438</u>	<u>\$ 557,046</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$ 109	\$ 21,582	N/A	N/A	N/A
518,374	600,125	N/A	N/A	N/A
532,466	339,337	N/A	N/A	N/A
(408,575)	(766,665)	N/A	N/A	N/A
<u>\$ 642,374</u>	<u>\$ 194,379</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

**State of Hawaii**  
**Financial Trends Information**  
**Changes in Fund Balances – Governmental Funds**  
**(Modified Accrual Basis of Accounting)**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
<b>Revenues</b>					
Taxes					
General excise tax	\$ 3,189,599	\$ 3,192,469	\$ 3,021,418	\$ 2,816,346	\$ 2,991,792
Net income tax – corporations and individuals	2,286,017	2,157,879	2,047,327	1,840,963	1,804,409
Public service companies tax	122,159	152,760	163,481	166,179	163,930
Transient accommodations tax	299,712	233,082	202,345	188,721	186,377
Tobacco and liquor tax	160,906	161,239	165,137	155,990	161,066
Liquid fuel tax	84,933	89,702	88,449	88,707	87,645
Tax on premiums of insurance companies	166,836	154,690	147,767	139,074	133,585
Vehicle weight and registration tax	132,974	130,051	125,113	124,686	121,605
Rental motor/tour vehicle surcharge tax	53,189	54,873	51,941	42,853	52,112
Franchise tax	11,174	14,691	19,930	38,983	22,673
Other	103,204	109,072	76,222	96,131	80,079
<b>Total taxes</b>	<b>6,610,703</b>	<b>6,450,508</b>	<b>6,109,130</b>	<b>5,698,633</b>	<b>5,805,273</b>
Interest and investment income (loss)	30,676	22,564	16,024	13,163	25,502
Charges for current services	460,211	431,181	384,380	363,791	369,269
Intergovernmental	2,938,557	2,995,768	2,803,989	2,650,876	2,372,480
Rentals	35,530	32,371	31,127	31,846	28,633
Fines, forfeitures and penalties	39,203	35,738	37,201	33,087	36,802
Licenses and fees	46,893	45,738	42,463	47,209	46,839
Revenues from private sources	105,857	126,450	121,366	112,916	104,670
Other	248,389	169,533	191,472	173,483	235,516
<b>Total revenues</b>	<b>10,516,019</b>	<b>10,309,851</b>	<b>9,737,152</b>	<b>9,125,004</b>	<b>9,024,984</b>
<b>Expenditures</b>					
Current					
General government	701,083	673,236	573,820	543,129	408,538
Public safety	531,545	479,047	484,960	519,954	432,024
Highways	461,523	389,744	455,563	403,559	418,991
Conservation of natural resources	180,697	181,563	145,516	108,703	92,601
Health	873,703	876,820	855,797	828,088	779,755
Welfare	3,442,279	3,349,414	3,192,807	2,945,370	2,773,241
Lower education	2,973,583	2,828,013	2,619,156	2,603,774	2,358,763
Higher education	899,199	673,217	761,837	693,292	654,611
Other education	27,248	23,379	21,664	21,766	20,086
Culture and recreation	104,655	101,351	96,676	107,846	107,940
Urban redevelopment and housing	63,807	54,446	71,384	65,228	66,243
Economic development and assistance	179,127	159,483	176,919	158,379	157,468
Housing	133,010	58,381	48,565	63,683	112,614
Other	10,613	20,193	15,179	29,818	32,716
Debt service					
Principal	484,274	444,791	444,791	458,983	399,382
Interest and others	296,482	315,321	289,524	278,315	288,267
<b>Total expenditures</b>	<b>11,362,828</b>	<b>10,628,399</b>	<b>10,254,158</b>	<b>9,829,887</b>	<b>9,103,240</b>
<b>Excess of expenditures over revenues</b>	<b>(846,809)</b>	<b>(318,548)</b>	<b>(517,006)</b>	<b>(704,883)</b>	<b>(78,256)</b>
<b>Other financing sources (uses)</b>					
Proceeds from borrowing and refunding	2,161,677	1,835,677	1,518,709	948,190	1,066,848
Payments to escrow agent	(879,070)	(989,950)	(516,839)	(185,560)	(503,372)
Transfers in	1,444,931	1,276,279	1,171,272	1,066,780	1,033,917
Transfers out	(1,444,931)	(1,276,279)	(1,171,272)	(1,066,780)	(1,033,917)
Other	-	46,986	-	18,835	-
<b>Total other financing sources</b>	<b>1,282,607</b>	<b>892,713</b>	<b>1,001,870</b>	<b>781,465</b>	<b>563,476</b>
<b>Net change in fund balances</b>	<b>\$ 435,798</b>	<b>\$ 574,165</b>	<b>\$ 484,864</b>	<b>\$ 76,582</b>	<b>\$ 485,220</b>
Total debt service as a percent of noncapital expenditures	7.3%	7.6%	7.7%	7.9%	8.0%

	2012	2011	2010	2009	2008
\$	2,774,636	\$ 2,507,980	\$ 2,279,310	\$ 2,410,756	\$ 2,597,121
	1,633,412	1,473,188	1,408,965	1,373,893	1,637,265
	150,528	117,940	157,661	126,069	127,481
	138,529	60,839	32,635	14,408	17,756
	170,824	173,851	149,596	135,388	134,886
	88,842	91,265	82,780	88,006	90,123
	119,472	140,586	105,848	95,181	96,332
	98,187	59,476	58,659	59,392	60,842
	106,417	43,892	40,401	39,751	49,196
	7,229	33,682	20,666	28,075	20,213
	70,873	67,799	32,165	19,215	26,149
	<u>5,358,949</u>	<u>4,770,498</u>	<u>4,368,686</u>	<u>4,390,134</u>	<u>4,857,364</u>
	5,347	55,854	124,518	(42,051)	115,247
	337,765	348,108	364,893	357,078	341,371
	2,238,639	2,567,266	2,432,369	2,090,058	1,807,376
	25,421	23,319	19,712	21,107	20,152
	35,083	34,712	35,982	33,888	32,618
	46,390	41,557	36,641	33,324	31,731
	65,085	54,857	57,850	63,401	59,508
	152,091	343,318	182,367	246,369	131,291
	<u>8,264,770</u>	<u>8,239,489</u>	<u>7,623,018</u>	<u>7,193,308</u>	<u>7,396,658</u>
	487,596	487,848	436,290	597,210	537,541
	454,957	423,716	457,058	435,414	411,152
	414,629	376,780	442,971	442,421	406,795
	98,428	93,600	88,873	120,693	103,596
	729,841	757,482	801,923	798,026	863,914
	2,443,936	2,526,743	2,315,726	2,119,481	1,857,473
	2,330,130	2,208,303	2,325,066	2,454,668	2,201,901
	672,716	707,380	700,335	878,127	815,116
	16,753	14,018	14,033	29,912	23,206
	109,974	117,306	108,536	107,302	110,404
	48,484	73,789	115,796	179,819	255,783
	147,445	158,104	166,320	169,547	149,075
	46,133	61,352	24,153	1,909	-
	12,108	12,223	4,460	1,175	5,880
	313,721	191,244	179,624	204,604	231,478
	274,039	266,737	248,551	197,118	247,257
	<u>8,600,890</u>	<u>8,476,625</u>	<u>8,429,715</u>	<u>8,737,426</u>	<u>8,220,571</u>
	<u>(336,120)</u>	<u>(237,136)</u>	<u>(806,697)</u>	<u>(1,544,118)</u>	<u>(823,913)</u>
	1,600,308	-	1,150,482	1,174,768	445,687
	(565,801)	-	(619,708)	(349,697)	(29,510)
	950,717	921,433	721,810	761,393	803,456
	(950,717)	(921,433)	(721,810)	(761,393)	(803,456)
	-	37,889	4,415	-	-
	<u>1,034,507</u>	<u>37,889</u>	<u>535,189</u>	<u>825,071</u>	<u>416,177</u>
\$	<u>698,387</u>	<u>\$ (199,247)</u>	<u>\$ (271,508)</u>	<u>\$ (719,047)</u>	<u>\$ (407,736)</u>
	7.2%	5.7%	5.4%	4.8%	6.1%

**State of Hawaii**  
**Revenue Capacity Information**  
**Personal Income by Industry**  
**Ten Years Ended June 30, 2017**  
**(Amounts in millions)**

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
<b>Farm earnings</b>	\$ 274	\$ 284	\$ 318	\$ 349	\$ 243
<b>Nonfarm wage and salary worker</b>					
Goods-producing industries					
Forestry, fishing-related activities and other	87	76	76	66	60
Mining	35	39	41	37	39
Construction	4,391	4,038	3,542	3,328	3,236
Manufacturing – durable and nondurable goods	921	918	878	833	804
Subtotal goods – producing industries	<u>5,434</u>	<u>5,071</u>	<u>4,537</u>	<u>4,264</u>	<u>4,139</u>
Service-producing industries					
Transportation, communication and utilities	2,714	2,639	2,424	2,316	2,178
Trade	4,574	4,419	4,130	4,089	3,929
Information	711	742	718	711	692
Finance, insurance and real estate	3,192	3,051	3,110	3,267	2,752
Service	19,595	19,087	17,608	17,126	16,423
State and local government	6,970	6,949	6,426	6,089	5,873
Federal government	8,491	8,614	8,400	8,139	8,507
Subtotal service-producing industries	<u>46,247</u>	<u>45,501</u>	<u>42,816</u>	<u>41,737</u>	<u>40,354</u>
Total nonfarm wage and salary worker	<u>51,681</u>	<u>50,572</u>	<u>47,353</u>	<u>46,001</u>	<u>44,493</u>
<b>Other (1)</b>	<u>21,042</u>	<u>19,814</u>	<u>19,092</u>	<u>18,270</u>	<u>18,473</u>
Total personal income	<u>\$ 72,997</u>	<u>\$ 70,670</u>	<u>\$ 66,763</u>	<u>\$ 64,620</u>	<u>\$ 63,209</u>
Total direct income tax rate (2)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

(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 Department of Business, Economic Development and Tourism – Data Book and Quarterly Statistical and Economic Report (QSER)  
Bureau of Economic Analysis – SQ5N Personal Income by major source and earnings by major NAICS industry.

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<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
\$ 288	\$ 288	\$ 250	\$ 232	\$ 220
60	42	45	36	47
35	33	51	44	45
3,046	2,843	2,598	2,714	3,271
767	768	766	807	874
<u>3,908</u>	<u>3,686</u>	<u>3,460</u>	<u>3,601</u>	<u>4,237</u>
1,889	1,783	1,718	1,714	1,826
3,768	3,666	3,651	3,636	3,817
645	711	732	657	711
2,329	2,081	2,014	2,044	2,126
15,438	15,075	14,901	14,514	14,723
5,425	5,327	5,609	5,609	5,372
10,094	9,531	9,252	9,077	8,258
<u>39,588</u>	<u>38,174</u>	<u>37,877</u>	<u>37,251</u>	<u>36,833</u>
<u>43,496</u>	<u>41,860</u>	<u>41,337</u>	<u>40,852</u>	<u>41,070</u>
<u>16,144</u>	<u>15,981</u>	<u>14,661</u>	<u>13,329</u>	<u>12,891</u>
\$ 59,928	\$ 58,129	\$ 56,248	\$ 54,413	\$ 54,181
N/A	N/A	N/A	N/A	N/A

**State of Hawaii**  
**Revenue Capacity Information**  
**Personal Income Tax Rates**  
**Ten Years Ending December 31, 2017**

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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
2017	8.25% + \$3,214	\$ 48,000	8.25% + \$6,427	\$ 96,000	8.25% + \$4,820	\$ 72,000
2016	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2015	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2014	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2013	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2012	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2011	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2010	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2009	11.00% + \$16,379	200,000	11.00% + \$32,757	400,000	11.00% + \$24,568	300,000
2008	8.25% + \$3,214	48,000	8.25% + \$6,427	96,000	8.25% + \$4,820	72,000

**Source:** State of Hawaii, Department of Taxation.

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**State of Hawaii**  
**Revenue Capacity Information**  
**Taxable Sales by Industry**  
**Ten Years Ended June 30, 2017**  
**(Amounts in millions)**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Taxable sales by activities</b>					
Retailing	\$ 30,747	\$ 29,498	\$ 29,987	\$ 31,152	\$ 29,636
Services	14,162	13,667	13,361	13,795	12,985
Contracting	8,418	8,185	7,322	7,046	7,547
Hotel rentals	4,898	4,442	4,328	4,279	3,871
All other rentals	6,669	6,474	6,544	6,472	6,377
All other (4%)	5,918	5,407	5,486	5,683	5,337
Subtotal	<u>70,812</u>	<u>67,673</u>	<u>67,028</u>	<u>68,427</u>	<u>65,753</u>
Producing	324	295	321	436	399
Manufacturing	731	734	716	1,876	639
Wholesaling	14,462	13,864	14,294	14,675	14,430
Use (0.5%)	6,799	7,354	7,127	6,489	8,867
Services (intermediary)	870	708	716	1,096	628
Insurance solicitors	495	485	489	485	464
Subtotal	<u>23,681</u>	<u>23,440</u>	<u>23,663</u>	<u>25,057</u>	<u>25,427</u>
Total all activities	<u>\$ 94,493</u>	<u>\$ 91,113</u>	<u>\$ 90,691</u>	<u>\$ 93,484</u>	<u>\$ 91,180</u>

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

- 4% of sales of tangible personal property, services, contracting, theater amusement and broadcasting, commissions, transient accommodation 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 – Monthly Tax Collection Reports.

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	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
\$	29,095	\$ 25,887	\$ 23,919	\$ 24,318	\$ 26,183
	12,696	11,944	11,154	11,059	11,073
	6,253	5,687	5,864	7,631	7,863
	3,431	3,024	2,606	2,812	3,321
	6,154	5,999	5,778	6,094	5,818
	5,160	4,825	4,360	4,375	5,238
	<u>62,789</u>	<u>57,366</u>	<u>53,681</u>	<u>56,289</u>	<u>59,496</u>
	401	370	340	405	457
	681	698	704	809	761
	14,442	13,121	12,207	12,502	13,746
	8,005	6,669	6,430	6,883	7,215
	653	577	572	611	649
	477	480	502	535	544
	<u>24,659</u>	<u>21,915</u>	<u>20,755</u>	<u>21,745</u>	<u>23,372</u>
\$	<u>87,448</u>	<u>\$ 79,281</u>	<u>\$ 74,436</u>	<u>\$ 78,034</u>	<u>\$ 82,868</u>

**State of Hawaii**  
**Revenue Capacity Information**  
**Sales Tax Revenue Payers by Industry**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands)**

	2017		2016		2015		2014		Fiscal Year Ended June 30, 2013	
	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	\$ 1,229,860	38.0%	\$ 1,179,911	36.8%	\$ 1,199,488	39.4%	\$ 1,246,061	43.3%	\$ 1,185,446	40.3%
Services	566,466	17.5%	546,684	17.1%	534,442	17.5%	551,784	19.2%	519,419	17.6%
Contracting	336,717	10.4%	327,394	10.2%	292,874	9.6%	281,839	9.8%	301,875	10.3%
Theater, amusement, etc.	17,248	0.5%	15,931	0.5%	15,955	0.5%	15,619	0.5%	15,986	0.5%
Interest	134,441	4.2%	1	0.0%	1	0.0%	3	0.0%	3	0.0%
Commissions	49,209	1.5%	44,777	1.4%	45,619	1.5%	45,125	1.6%	42,064	1.4%
Hotel rentals	195,919	6.0%	177,671	5.5%	173,100	5.7%	171,162	5.9%	154,837	5.3%
All other rentals	266,758	8.2%	258,977	8.1%	261,743	8.6%	258,886	9.0%	255,074	8.7%
Use (4%)	35,845	1.1%	35,620	1.1%	39,884	1.3%	40,277	1.4%	41,015	1.4%
All other (4%)	-	0.0%	119,948	3.7%	118,014	3.9%	126,306	4.4%	114,396	3.9%
Producing	1,619	0.1%	1,473	0.0%	1,605	0.1%	2,181	0.1%	1,997	0.1%
Manufacturing	3,657	0.1%	3,670	0.1%	3,581	0.1%	9,380	0.3%	3,194	0.1%
Wholesaling	72,309	2.2%	69,322	2.2%	71,471	2.3%	73,373	2.5%	72,149	2.4%
Use (0.5%)	33,996	1.1%	36,872	1.2%	35,634	1.2%	32,446	1.1%	44,337	1.5%
Services (Intermediary)	4,352	0.1%	3,539	0.1%	3,578	0.1%	5,480	0.2%	3,139	0.1%
Insurance solicitors	743	0.0%	728	0.0%	733	0.0%	728	0.0%	697	0.0%
Unallocated collections	290,086	9.0%	383,736	12.0%	250,484	8.2%	19,893	0.7%	188,859	6.4%
Total	\$ 3,239,225	100.0%	\$ 3,206,254	100.0%	\$ 3,048,206	100.0%	\$ 2,880,543	100.0%	\$ 2,944,487	100.0%

**Source:** State of Hawaii, Department of Taxation – Monthly Tax Collection Reports.

**Note:** Information for number of filers is not available

2012		2011		2010		2009		2008	
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
\$ 1,163,805	43.1%	\$ 1,035,465	41.5%	\$ 956,761	41.3%	\$ 972,728	40.1%	\$ 1,047,340	40.0%
507,864	18.8%	477,753	19.3%	446,142	19.3%	442,356	18.3%	442,909	17.0%
250,122	9.3%	227,497	9.1%	234,562	10.1%	305,241	12.6%	314,538	12.0%
15,776	0.6%	14,945	0.6%	13,378	0.6%	13,557	0.6%	13,998	0.5%
4	0.0%	74	0.0%	191	0.0%	339	0.0%	7,963	0.3%
38,848	1.4%	36,574	1.5%	33,024	1.4%	35,230	1.5%	42,500	1.6%
137,222	5.1%	120,954	4.8%	104,260	4.5%	112,484	4.6%	132,841	5.1%
246,151	9.1%	239,944	9.6%	231,123	10.0%	243,762	10.1%	232,718	8.9%
41,797	1.6%	37,316	1.5%	34,484	1.5%	34,088	1.4%	39,034	1.5%
109,989	4.1%	104,073	4.2%	93,327	4.0%	91,761	3.8%	106,040	4.0%
2,004	0.1%	1,850	0.1%	1,697	0.1%	2,023	0.1%	2,286	0.1%
3,402	0.1%	3,488	0.1%	3,517	0.2%	4,045	0.2%	3,804	0.1%
72,210	2.7%	65,608	2.6%	61,036	2.6%	62,509	2.6%	68,730	2.6%
40,026	1.5%	33,347	1.3%	32,152	1.4%	34,415	1.4%	36,073	1.4%
3,265	0.1%	2,886	0.1%	2,862	0.1%	3,054	0.1%	3,242	0.1%
716	0.0%	721	0.0%	753	0.0%	803	0.0%	815	0.0%
64,750	2.4%	93,312	3.7%	67,165	2.9%	61,855	2.6%	123,953	4.8%
<u>\$ 2,697,951</u>	<u>100.0%</u>	<u>\$ 2,495,807</u>	<u>100.0%</u>	<u>\$ 2,316,434</u>	<u>100.0%</u>	<u>\$ 2,420,250</u>	<u>100.0%</u>	<u>\$ 2,618,784</u>	<u>100.0%</u>

**State of Hawaii**  
**Debt Capacity Information**  
**Ratios of Outstanding Debt by Type**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands except per capita data)**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Governmental activities</b>					
General obligation bonds	\$ 7,635,827	\$ 6,953,431	\$ 6,503,281	\$ 5,784,139	\$ 5,534,921
Revenue bonds	692,742	615,120	666,202	412,725	441,150
Capital leases	143,622	149,477	96,175	102,622	89,879
Total governmental activities	<u>8,472,191</u>	<u>7,718,028</u>	<u>7,265,658</u>	<u>6,299,486</u>	<u>6,065,950</u>
<b>Business-type activities</b>					
General obligation bonds	25,377	27,400	29,332	31,176	32,934
Revenue bonds	1,375,442	1,429,980	1,218,943	1,278,137	1,326,112
Lease revenue certificates of participation	252,806	179,985	172,864	173,771	-
Total business-type activities	<u>1,653,625</u>	<u>1,637,365</u>	<u>1,421,139</u>	<u>1,483,084</u>	<u>1,359,046</u>
Total primary government	<u>\$ 10,125,816</u>	<u>\$ 9,355,393</u>	<u>\$ 8,686,797</u>	<u>\$ 7,782,570</u>	<u>\$ 7,424,996</u>
<b>Hawaii total personal income</b>	\$ 72,997,000	\$ 71,767,000	\$ 66,763,000	\$ 64,620,000	\$ 63,209,000
<b>Debt as a percentage of personal income</b>	13.9%	13.0%	13.0%	12.0%	11.7%
<b>Hawaii population</b>	1,428	1,429	1,432	1,420	1,404
<b>Amount of debt per capita</b>	\$ 7,091	\$ 6,527	\$ 6,066	\$ 5,481	\$ 5,288

**Source:** State of Hawaii, Comprehensive Annual Financial Reports.  
State of Hawaii, Department of Business, Economic Development and Tourism – QSER.

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

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	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
\$	5,475,348	\$ 4,987,544	\$ 5,157,198	\$ 4,779,666	\$ 4,408,572
	468,180	378,625	400,215	420,605	268,425
	95,340	100,520	64,385	71,685	75,480
	<u>6,038,868</u>	<u>5,466,689</u>	<u>5,621,798</u>	<u>5,271,956</u>	<u>4,752,477</u>
	34,611	36,221	37,362	38,329	38,357
	1,370,314	1,410,624	1,248,680	861,423	861,141
	-	-	-	-	-
	<u>1,404,925</u>	<u>1,446,845</u>	<u>1,286,042</u>	<u>899,752</u>	<u>899,498</u>
\$	<u>7,443,793</u>	<u>6,913,534</u>	<u>6,907,840</u>	<u>6,171,708</u>	<u>5,651,975</u>
\$	59,928,000	\$ 58,129,000	\$ 56,248,000	\$ 54,413,000	\$ 54,181,000
	12.4%	11.9%	12.3%	11.3%	10.4%
	1,392	1,375	1,300	1,295	1,287
\$	5,348	\$ 5,028	\$ 5,314	\$ 4,766	\$ 4,392

**State of Hawaii**  
**Debt Capacity Information**  
**Ratios of Net General Bonded Debt Outstanding**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands except ratio data)**

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<b>Fiscal Year</b>	<b>Taxable Sales (1)</b>	<b>Population (2)</b>	<b>General Obligation Bonded Debt (3)(4)</b>	<b>Less: Debt Services Monies Available (3)</b>	<b>Net General Obligation Bonded Debt</b>	<b>Percentage of Taxable Sales</b>	<b>Net General Obligation Bonded Debt Per Capita</b>
2017	\$ 94,493,000	1,428	\$ 6,865,043	\$ 35	\$ 6,865,008	7.3%	\$ 4,807
2016	91,113,000	1,429	6,294,325	35	6,294,290	6.9%	4,405
2015	90,691,000	1,432	5,963,928	35	5,963,893	6.6%	4,165
2014	93,484,000	1,420	5,784,139	35	5,784,104	6.2%	4,073
2013	91,181,000	1,404	5,534,921	63	5,534,858	6.1%	3,942
2012	87,448,000	1,392	5,475,348	64	5,475,284	6.3%	3,933
2011	79,281,000	1,375	4,987,544	109	4,987,435	6.3%	3,627
2010	74,436,000	1,300	5,157,198	118	5,157,080	6.9%	3,967
2009	78,034,000	1,295	4,779,666	68	4,779,598	6.1%	3,691
2008	82,868,000	1,287	4,408,572	22,002	4,386,570	5.3%	3,408

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

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**State of Hawaii**  
**Debt Capacity Information**  
**Legal Debt Margin Information**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands)**

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	<b>Fiscal Year Ended June 30,</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Average general fund revenues of the three preceding fiscal years	\$ 6,997,106	\$ 6,577,966	\$ 6,294,642	\$ 5,987,800	\$ 5,659,152
Constitutional debt limit percentage	18.5%	18.5%	18.5%	18.5%	18.5%
Constitutional debt limit for total principal and interest payable in a current or future year	1,294,465	1,216,924	1,164,509	1,107,743	1,046,943
Less: Total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ended June 30, 2020)	(739,852)	(712,592)	(693,934)	(693,677)	(693,592)
Legal debt margin	\$ 554,613	\$ 504,332	\$ 470,575	\$ 414,066	\$ 353,351
Legal debt margin as a percentage of the debt limit	42.8%	41.4%	40.4%	37.4%	33.8%

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

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<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 5,197,547	\$ 4,992,943	\$ 5,032,973	\$ 5,126,782	\$ 5,083,126
<u>18.5%</u>	<u>18.5%</u>	<u>18.5%</u>	<u>18.5%</u>	<u>18.5%</u>
961,546	923,694	931,100	948,455	940,378
<u>(667,041)</u>	<u>(618,711)</u>	<u>(610,255)</u>	<u>(563,266)</u>	<u>(540,348)</u>
\$ 294,505	\$ 304,983	\$ 320,845	\$ 385,189	\$ 400,030
<u>30.6%</u>	<u>33.0%</u>	<u>34.5%</u>	<u>40.6%</u>	<u>42.5%</u>

**State of Hawaii**  
**Debt Capacity Information**  
**Pledge Revenue Coverage**  
**Ten Years Ended June 30, 2017**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Revenue bonds – Airports</b>										
Gross revenue (1)	\$ 431,726	\$ 381,404	\$ 355,948	\$ 341,155	\$ 385,841	\$ 319,542	\$ 322,639	\$ 295,087	\$ 288,583	\$ 307,418
Less: Operating expenses (2)	288,644	259,223	253,581	246,982	244,328	230,224	218,290	214,208	233,896	239,667
Net available revenue	143,082	122,181	102,367	94,173	141,513	89,318	104,349	80,879	54,687	67,751
Debt services										
Principal	38,935	37,290	35,725	34,210	40,305	30,579	25,370	23,615	22,310	21,140
Interest (3)	45,182	42,532	41,671	23,414	40,705	34,440	35,319	21,300	17,453	26,076
Total debt services	84,117	79,822	77,396	57,624	81,010	65,019	60,689	44,915	39,763	47,216
Coverage (4)	170%	153%	132%	163%	175%	137%	172%	180%	138%	143%
<b>Revenue bonds – Harbors</b>										
Gross revenue (5)	\$ 140,052	\$ 131,858	\$ 124,663	\$ 122,379	\$ 114,640	\$ 104,678	\$ 88,018	\$ 74,155	\$ 80,896	\$ 96,256
Less: Operating expenses (6)	53,396	47,133	43,132	43,837	44,048	41,202	37,650	36,930	47,814	49,229
Net available revenue	86,656	84,725	81,531	78,542	70,592	63,476	50,368	37,225	33,082	47,027
Debt services										
Principal	31,176	31,187	31,176	31,528	31,531	27,770	27,965	23,226	23,167	24,290
Coverage (4)	278%	272%	262%	249%	224%	229%	180%	160%	143%	194%
<b>Revenue bonds – Highways</b>										
Gross revenue	N/A	N/A	N/A	\$ 255,431	\$ 256,102	\$ 232,543	\$ 197,142	\$ 184,852	\$ 189,498	\$ 213,378
Less: Operating expenses	N/A	N/A	N/A	205,872	184,696	173,811	165,857	179,400	189,987	184,097
Net available revenue	N/A	N/A	N/A	49,559	71,406	58,732	31,285	5,452	(489)	29,281
Debt services										
Principal	37,790	34,920	31,890	28,825	27,170	22,465	21,570	20,535	16,150	15,495
Interest	19,320	20,571	19,402	19,036	20,245	18,906	17,195	18,028	15,823	12,930
Total debt services	57,110	55,491	51,292	47,861	47,415	41,371	38,765	38,563	31,973	28,425
Coverage (7)	N/A	N/A	N/A	104%	151%	142%	81%	14%	-2%	103%
<b>Revenue bonds – Department of Hawaiian Home Lands</b>										
Revenue	\$ 15,867	\$ 14,730	\$ 15,230	\$ 15,763	\$ 12,585	\$ 12,078	\$ 12,036	\$ 11,939	\$ -	\$ -
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	15,867	14,730	15,230	15,763	12,585	12,078	12,036	11,939	-	-
Debt services										
Principal	850	810	775	740	710	680	655	640	-	-
Interest	2,163	2,201	2,237	2,270	2,301	2,328	2,254	2,370	-	-
Total debt services	3,013	3,011	3,012	3,010	3,011	3,008	2,909	3,010	-	-
Coverage (4)	527%	489%	506%	524%	418%	402%	414%	397%	0%	0%

- Total operating revenues plus interest income and federal operating grants, exclusive of interest earned on investment in financing leases.
- 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.
- For purposes of calculating the debt service requirement, interest payment for Airports system revenue bonds exclude the amortization of the deferred loss on refunding and original issue discount and premium, which are reported as interest expense for financial statement reporting purposes.

For fiscal year 2008, Airports deposited \$10,000,000 of available funds into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required pursuant to the provisions of Section 6.01 to be paid or credited during fiscal 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 years 2016, 2015 and 2014, Airports transferred \$4,000,000, \$18,500,000 and \$19,000,000, respectively, of available funds from the Prepaid Airport Use Charge Fund into the Airport Revenue Fund for credit to the interest account in the current year to reduce the amount required to be deposited to the interest account, pursuant to the provisions of Section 6.01 in the "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Airports System Revenue Bonds."

- Revenue bond indentures require a minimum debt service coverage percentage of 125%.
- Total operating and nonoperating revenues exclusive of interest income on investment in financing leases and special facility construction fund and revenue fund investments.
- Total operating expenses other than depreciation, less State of Hawaii surcharge for central service expenses.
- 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).

N/A Not available

Coverage equals net available revenue divided by debt services.

**Source:** Airports Audited Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Airports Division.  
Harbors Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Harbors Division.  
Highways Financial Statements and Schedules of the State of Hawaii, Department of Transportation, Highways Division.  
DHHL Audited Financial Statements and Schedules of the State of Hawaii, Department of Hawaiian Home Lands.

**State of Hawaii**  
**Demographic and Economic Information**  
**Demographic and Economic Statistics**  
**Ten Years Ended June 30, 2017**

	Fiscal Year Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Population</b>										
<b>(in thousands)</b>										
State	1,428	1,429	1,432	1,420	1,404	1,392	1,375	1,300	1,298	1,287
Percentage change	-0.07%	-0.21%	0.85%	1.14%	0.86%	1.24%	5.77%	0.15%	0.85%	0.54%
National	325,719	323,128	321,419	318,857	316,129	313,914	311,592	308,746	307,007	304,375
Percentage change	0.80%	0.53%	0.80%	0.86%	0.71%	0.75%	0.92%	0.57%	0.86%	0.93%
<b>Total personal income</b>										
<b>(in millions)</b>										
State	\$ 72,997	\$ 70,670	\$ 66,763	\$ 64,620	\$ 63,209	\$ 59,928	\$ 58,129	\$ 56,248	\$ 54,413	\$ 54,181
Percentage change	3.29%	5.85%	3.32%	2.23%	5.47%	3.09%	3.34%	3.37%	0.43%	8.08%
National	\$ 16,152,011	\$ 15,725,128	\$ 14,991,944	\$ 14,420,041	\$ 13,904,502	\$ 13,150,560	\$ 12,691,347	\$ 12,530,101	\$ 12,015,535	\$ 12,225,589
Percentage change	2.71%	4.89%	3.97%	3.71%	5.73%	3.62%	1.29%	4.28%	(1.72%)	2.91%
<b>Per capita personal income</b>										
<b>(in thousands)</b>										
State	\$ 51,118	\$ 49,454	\$ 46,622	\$ 45,507	\$ 45,021	\$ 43,052	\$ 42,276	\$ 43,268	\$ 42,018	\$ 42,099
Percentage change	3.37%	6.07%	2.45%	1.08%	4.57%	1.84%	(2.29%)	3.21%	0.42%	7.74%
National	\$ 49,589	\$ 48,665	\$ 46,643	\$ 45,224	\$ 43,984	\$ 41,892	\$ 40,731	\$ 40,584	\$ 39,138	\$ 40,166
Percentage change	1.90%	4.34%	3.14%	2.82%	4.99%	2.85%	0.36%	3.69%	(2.56%)	1.96%
<b>Resident civilian labor force and employment</b>										
Civilian labor force employed	672,675	660,942	645,092	624,638	615,546	615,333	591,329	587,304	594,500	620,000
Unemployed	19,800	22,563	27,729	30,142	33,913	43,321	39,941	41,600	43,250	26,000
Unemployment rate	2.90%	3.30%	4.10%	4.60%	5.20%	6.60%	6.30%	6.60%	6.80%	4.00%

**Source:** State of Hawaii, Department of Business, Economic Development and Tourism – QSER. Bureau of Economic Analysis – Regional Economic Accounts. State of Hawaii, Department of Labor and Industrial Relations – Hawaii Workforce Infonet (HWI).

**Note:** The Per Capita Personal Income amount is computed by dividing Personal Income by Population, multiplied by 1,000.

**State of Hawaii  
Demographic and Economic Information  
Ten Largest Private Sector Employers  
June 30, 2017 and June 30, 2008**

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2017			2008		
<u>Employer</u>	<u>Employees</u>	<u>Percentage of Total State Employment</u>	<u>Employer</u>	<u>Employees</u>	<u>Percentage of Total State Employment</u>
Bank of Hawaii Corp	2,161	0.3%	Alexander & Baldwin, Inc.	2,255	0.4%
First Hawaiian Bank	2,179	0.3%	Aloha Airgroup Inc.	3,399	0.5%
Hawaii Pacific Health	6,641	1.0%	Hawaii Pacific Health	5,200	0.8%
Hawaiian Electric Industries, Inc.	3,796	0.5%	Hawaiian Airlines	3,415	0.5%
Hawaiian Holdings, Inc.	4,968	0.7%	Hawaiian Electric Industries, Inc.	3,519	0.6%
Kaiser Permanente Hawaii	4,410	0.6%	Hilton Waikoloa Village	3,099	0.5%
Kamehameha Schools	2,203	0.3%	Kaiser Permanente Medical Care Program	4,403	0.7%
Kokusai Kogyo Kanri Kabushiki Kaisha – U.S. Operations	2,993	0.4%	Kyo-ya Co., Ltd	3,639	0.6%
Outrigger Enterprises Group	3,186	0.5%	The Queen's Health Systems	4,903	0.8%
The Queen's Health Systems	7,455	1.1%	Starwood Hotels and Resort Hawaii	2,700	0.4%

**Source:** Hawaii Business, Annual August Issue.  
State of Hawaii, Department of Labor and Industrial Relations – HWI – Labor  
(Total State Employees).

**Note:** Total Annual Average Employment for Hawaii for fiscal year 2017 – 692,000 and for fiscal year 2008 – 633,000.

Listed alphabetically.

**State of Hawaii**  
**Demographic and Economic Information**  
**State Employees by Function**  
**Ten Years Ended June 30, 2017**

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	Fiscal Year Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General government	4,538	4,537	4,571	4,572	4,419	4,394	4,381	4,381	4,752	4,720
Public safety	3,336	3,316	3,197	3,175	2,981	2,903	2,864	2,880	3,089	3,011
Transportation	2,234	2,263	2,295	2,254	2,275	2,202	2,160	2,158	2,290	2,229
Conservation of natural resources	1,008	1,015	1,007	1,007	972	929	941	983	1,146	1,126
Health	5,127	6,544	6,731	6,813	7,136	6,919	6,876	6,863	7,266	6,730
Welfare	1,940	1,913	1,927	1,941	1,940	1,800	1,788	1,848	2,404	2,312
Lower education	21,531	21,841	21,707	21,797	21,976	22,065	21,917	22,090	22,675	22,620
Higher education	8,620	8,746	8,802	9,080	8,978	8,795	8,687	8,732	9,066	8,705
Other education	486	496	488	492	-	454	473	482	516	518
Urban redevelopment and housing	130	118	123	127	116	127	130	146	154	150
Economic development and assistance	730	749	761	759	781	815	816	835	1,141	865
Total	49,680	51,538	51,609	52,017	51,574	51,403	51,033	51,398	54,499	52,986

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

**State of Hawaii**  
**Operating Information**  
**Operating Indicators by Function**  
**Ten Years Ended June 30, 2017**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>General government</b>					
Tax Commission					
Total individual net income returns	704,250	768,261	715,706	737,205	612,373
Number of individual net income returns filed electronically	536,273	529,527	509,409	483,817	397,178
Percentage of individual net income returns transmitted electronically	76.15%	68.93%	71.18%	65.63%	64.86%
<b>Public safety</b>					
Inmate population					
In-state facilities	4,052	4,584	4,683	4,456	4,438
Out-of-state facilities	1,617	1,386	1,341	1,363	1,415
Total	<u>5,669</u>	<u>5,970</u>	<u>6,024</u>	<u>5,819</u>	<u>5,853</u>
<b>Conservation and natural resources</b>					
Parks and Recreation					
Number of state-owned parks	54	54	52	51	53
<b>Health</b>					
Environmental health					
Air quality sites monitored	14	14	14	13	14
Water quality stations	169	160	161	173	173
Revolving loan funds	186	176	159	149	133
Mental health					
Adult consumers served	9,295	7,828	8,282	10,408	10,728
Individuals with developmental disabilities served	2,863	2,738	2,705	2,615	2,599
<b>Welfare</b>					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF)					
Families per-month average	5,750	6,918	8,102	8,927	10,075
Average time on assistance	18.1	18.1	17.5	N/A	14.6
Monthly benefits paid for the month of July (in millions)	\$ 2.98	\$ 3.90	\$ 3.60	\$ 4.10	\$ 5.47
General assistance					
Individuals per month	5,651	5,676	5,699	5,598	5,687
Food stamp program					
Number of persons participating	170,850	173,780	191,918	193,565	187,062
Number of households participating	85,491	87,636	96,502	98,440	94,649
Benefits issued (in millions)	\$ 40.26	\$ 40.23	\$ 49.90	\$ 43.39	\$ 40.33
Medicaid programs					
Med-Quest enrollment	352,991	350,358	332,197	325,510	292,423

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<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
703,262	747,237	665,057	682,178	678,305
430,421	388,463	322,515	308,366	271,212
61.20%	51.99%	48.49%	45.20%	39.98%
4,396	4,423	4,047	3,928	6,014
1,677	1,667	1,940	2,077	2,014
<u>6,073</u>	<u>6,090</u>	<u>5,987</u>	<u>6,005</u>	<u>8,028</u>
53	53	53	53	53
12	14	13	14	14
193	201	290	349	271
120	109	107	102	90
11,062	11,194	14,633	15,772	15,586
2,558	2,438	2,661	2,879	2,821
10,300	10,014	9,448	8,661	8,358
13.5	13.0	15.0	14.0	13.0
\$ 6.42	\$ 6.17	\$ 5.29	\$ 3.46	\$ 4.75
5,633	5,298	5,068	5,014	4,458
172,676	154,496	133,043	109,268	93,956
86,418	77,133	66,885	54,925	47,545
\$ 37.18	\$ 33.42	\$ 28.74	\$ 20.22	\$ 14.64
287,902	272,218	259,307	235,203	211,105

(continued)



**State of Hawaii**  
**Operating Information**  
**Operating Indicators by Function**  
**Ten Years Ended June 30, 2017**

	<b>Fiscal Year Ended June 30,</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Lower education</b>					
Number of schools	290	290	289	288	286
Number of students	181,550	181,995	182,384	185,273	183,251
<b>Staff</b>					
Classroom teachers	11,782	11,747	11,663	11,781	11,632
Librarians	149	160	173	185	192
Counselors	634	634	623	625	629
Administrators	995	943	914	833	823
Other support staff	9,039	9,113	9,052	9,014	8,987
Total	<u>22,599</u>	<u>22,597</u>	<u>22,425</u>	<u>22,438</u>	<u>22,263</u>
<b>Higher education</b>					
<b>Enrollment</b>					
Number of credit students	<u>51,674</u>	<u>53,418</u>	<u>55,756</u>	<u>57,052</u>	<u>58,941</u>
<b>Degrees earned</b>					
Certificates/Associate Degrees/Advanced Professional certificates	5,102	5,192	4,830	5,158	4,097
Bachelor's degrees	4,735	4,841	4,599	4,408	4,236
Master's degrees/Professional diploma	1,040	1,126	1,035	1,179	1,095
Doctor's degrees/First Professional	482	472	579	467	508
Other	49	49	61	66	65
Total	<u>11,408</u>	<u>11,680</u>	<u>11,104</u>	<u>11,278</u>	<u>10,001</u>
<b>Degrees by campus/college</b>					
University of Hawaii at Manoa	4,712	5,104	4,923	4,949	4,737
University of Hawaii at Hilo	955	893	905	806	809
University of Hawaii at West Oahu	623	474	439	352	349
Hawaii Community College	576	693	569	669	552
Honolulu Community College	900	886	725	683	551
Kapiolani Community College	1,356	1,383	1,335	1,513	1,193
Kauai Community College	258	248	264	203	216
Leeward Community College	1,019	1,057	1,000	1,090	770
Maui Community College	668	594	575	660	601
Windward Community College	341	348	369	353	223
Total	<u>11,408</u>	<u>11,680</u>	<u>11,104</u>	<u>11,278</u>	<u>10,001</u>

N/A Not available.

**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.

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<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
286	287	286	289	287
181,213	178,208	178,649	177,871	178,369
11,458	11,046	11,262	11,294	11,396
199	204	225	249	257
627	618	646	660	660
806	734	728	747	773
8,975	8,408	8,607	8,654	8,566
<b>22,065</b>	<b>21,010</b>	<b>21,468</b>	<b>21,604</b>	<b>21,652</b>
<b>60,295</b>	<b>60,330</b>	<b>60,090</b>	<b>57,945</b>	<b>53,526</b>
3,638	3,324	3,025	2,785	2,660
4,055	3,796	3,593	3,705	3,698
1,287	1,269	1,216	1,185	1,269
494	496	351	354	369
154	103	106	55	-
<b>9,628</b>	<b>8,988</b>	<b>8,291</b>	<b>8,084</b>	<b>7,996</b>
4,767	4,675	4,414	4,496	4,566
915	731	601	614	588
301	255	242	221	180
452	405	426	386	346
565	559	486	504	520
987	851	783	702	685
196	208	162	163	139
721	657	608	503	475
560	482	416	364	367
164	165	153	131	130
<b>9,628</b>	<b>8,988</b>	<b>8,291</b>	<b>8,084</b>	<b>7,996</b>

(concluded)

**State of Hawaii**  
**Operating Information**  
**Capital Assets Statistics by Function**  
**Ten Years Ended June 30, 2017**

	Fiscal Year Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>General government</b>										
Department of Accounting and General Services										
Buildings	79	81	79	78	74	74	74	74	74	72
Vehicles	644	673	650	650	608	600	592	582	602	571
Department of the Attorney General										
Buildings	6	6	6	6	5	5	5	5	5	5
Vehicles	3	4	3	3	3	3	3	3	3	2
The Judiciary										
Buildings	19	19	19	19	19	18	18	18	18	17
Vehicles	18	18	18	18	18	18	17	16	15	13
Other departments										
Buildings	21	21	23	23	22	24	24	24	23	23
Vehicles	3	3	3	4	4	4	4	4	4	5
<b>Public safety</b>										
Department of Public Safety										
Buildings and correction facilities	76	76	77	75	74	74	74	73	72	71
Vehicles	290	302	306	279	274	277	278	277	262	260
Department of Defense										
Buildings	99	99	99	98	98	97	97	96	96	96
Vehicles	108	104	96	128	118	112	81	79	79	79
Department of Commerce and Consumer Affairs										
Buildings	4	4	4	4	4	4	4	4	4	4
Vehicles	-	-	-	-	-	-	-	1	-	-
<b>Highways</b>										
Department of Transportation										
Highway lane miles	2,489	2,487	2,477	2,488	N/A	N/A	N/A	2,497	2,479	2,478
Highway bridges	752	752	752	752	N/A	N/A	N/A	752	752	752
Buildings	40	40	39	37	36	36	34	34	34	29
Vehicles	1,043	989	971	982	984	951	958	968	963	949

N/A Not available

**Source:** Buildings and Vehicles – State of Hawaii, Department of Accounting and General Services.  
Lane Miles – State of Hawaii, Department of Transportation.  
Land Area and Highway Bridges – State of Hawaii, Data Book 2017.

	Fiscal Year Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Conservation of natural resources</b>										
Department of Land and Natural Resources										
Land area (in square miles)	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423	6,423
Buildings	97	97	97	96	94	93	95	95	95	74
Vehicles	886	855	824	785	788	756	758	732	731	706
Department of Agriculture										
Buildings	33	33	33	32	32	32	32	32	32	32
Vehicles	159	161	164	166	167	170	176	186	186	184
<b>Health</b>										
Department of Health										
Buildings	73	74	74	74	74	74	74	74	72	71
Vehicles	258	241	230	227	238	252	259	280	284	295
<b>Welfare</b>										
Department of Human Services										
Buildings	18	18	18	18	18	18	18	18	18	18
Vehicles	99	99	104	116	110	107	111	111	117	128
<b>Lower education</b>										
Department of Education										
Buildings	8	8	8	8	8	8	8	8	8	8
<b>Other education</b>										
Department of Education – libraries										
Buildings	38	39	38	38	38	34	34	34	34	34
Vehicles	29	29	29	25	27	28	27	28	28	30
<b>Urban redevelopment and housing</b>										
Department of Hawaiian Home Lands										
Buildings	19	19	18	18	18	18	18	18	17	16
Vehicles	42	39	36	33	37	33	34	34	34	33
<b>Economic development and assistance</b>										
Department of Business, Economic Development and Tourism										
Buildings	32	32	32	32	32	33	33	33	33	32
Vehicles	30	32	32	28	30	32	33	34	34	39
Department of Labor and Industrial Relations										
Buildings	8	8	8	8	8	8	8	8	8	8
Vehicles	2	2	2	2	2	2	2	2	2	2

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