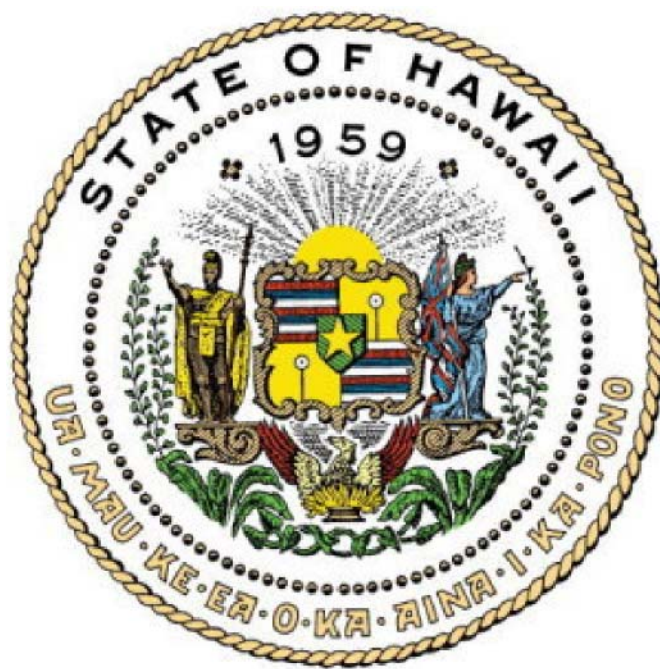


# STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

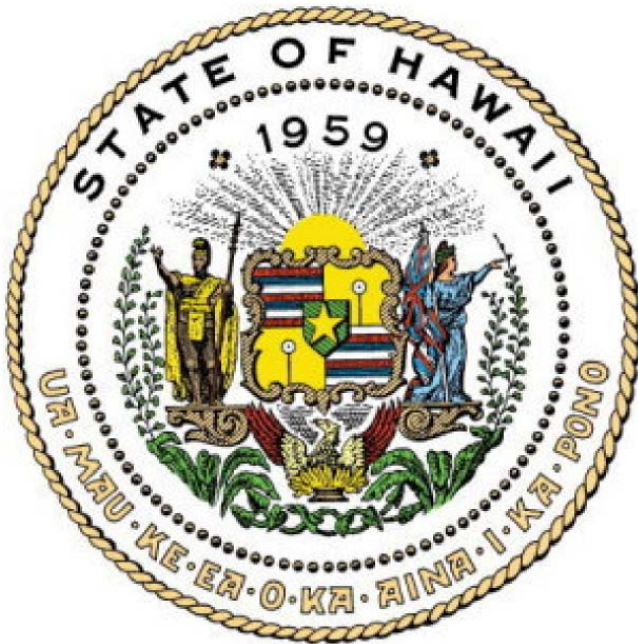


**RUSS K. SAITO**  
COMPTROLLER

# HAWAII

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR  
ENDED JUNE 30, 2007



**RUSS K. SAITO**  
COMPTROLLER

Prepared by Accounting Division  
Department of Accounting and General Services

Independent Audit Contracted and Administered by  
Office of the State Auditor

# STATE OF HAWAII

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June 30, 2007

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***PART I: INTRODUCTORY SECTION***



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STATE OF HAWAII

**Principal Officials for Finance-Related Functions**

June 30, 2007

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**Russ K. Saito**  
**Comptroller**

**Governor**

**Director of Finance**

**Director of Taxation**

**Comptroller**

**Linda Lingle**

**Georgina Kawamura**

**Kurt Kawafuchi**

**Russ K. Saito**

Notes:

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

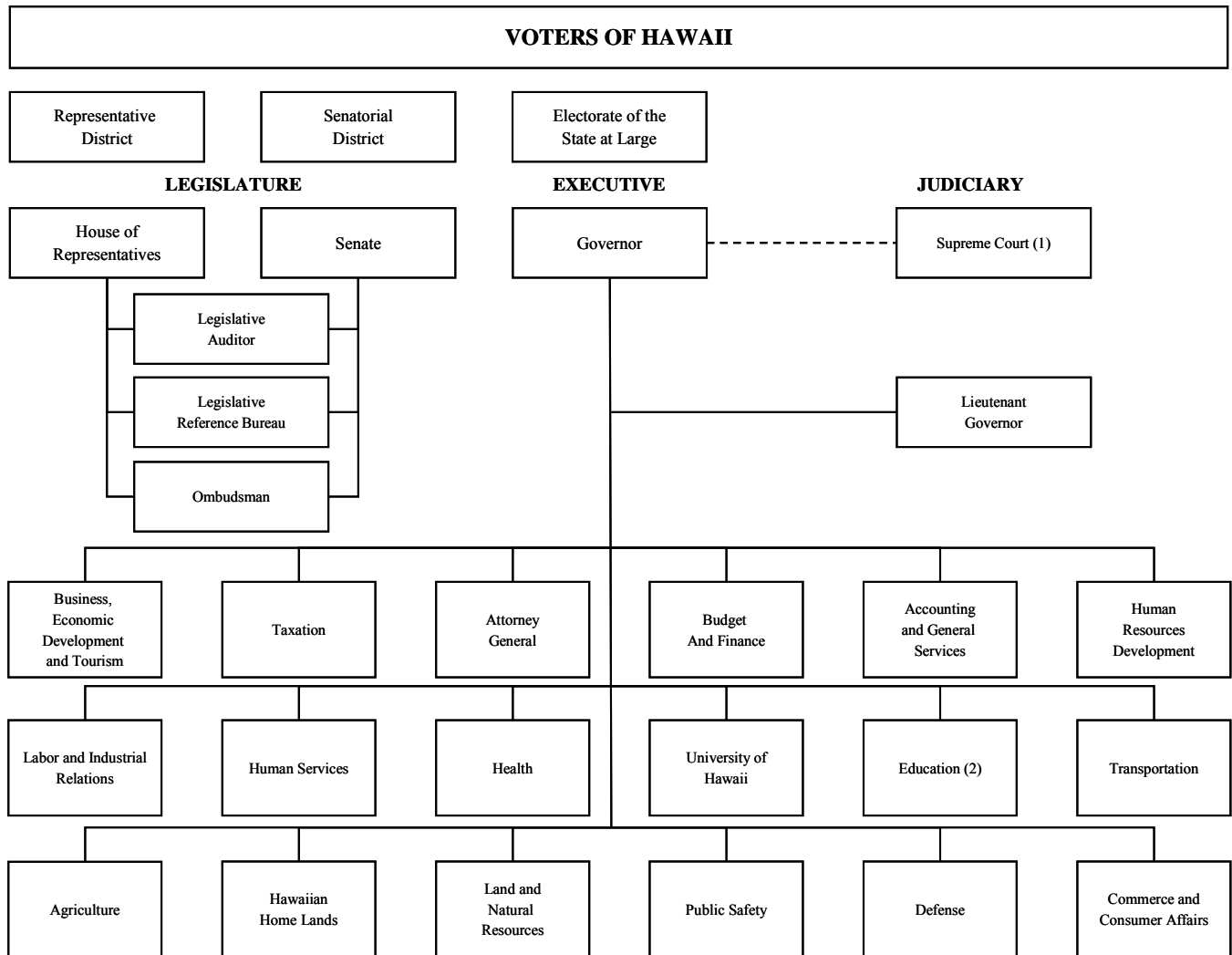
The Comptroller is also department head of the Department of Accounting and General Services.

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

# STATE OF HAWAII

## Organizational Chart

June 30, 2007



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



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

May 7, 2008

To the Honorable Governor of the State of Hawaii  
To the Honorable Members of the Twenty-Fourth State  
Legislature of the State of Hawaii:

In accordance with the provisions of Section 40-5 of the Hawaii Revised Statutes, it is my privilege to present to you the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii (State) for the fiscal year ended June 30, 2007. This report has been prepared by the State's Department of Accounting and General Services. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the State. I believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of the State's financial affairs has been included.

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

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

### **THE REPORTING ENTITY AND ITS SERVICES**

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

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

## **FACTORS AFFECTING FINANCIAL CONDITION**

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

### **State of the Economy**

#### *Overview*

Most indicators of the State's economy showed positive growth in 2007, but with growth rates in many areas lower than in the previous three years. Employment and job growth continue to be positive, which should lead to income growth for Hawaii's households and tax revenues for the State. The State's unemployment rate continued to be one of the lowest in the nation. Although visitor arrivals decreased in 2007, nominal visitor expenditures increased due to increased expenditures per visitor day. Indicators of the State's construction industry were mixed, with construction jobs up from the previous year while total value of new building permits declined.

#### *Labor*

Hawaii's total civilian employment averaged 632,950 persons during 2007, up .7% from 2006. Hawaii's civilian unemployment rate (not seasonally adjusted) averaged 2.6% for 2007. According to the Bureau of Labor Statistics, at 2.6%, Hawaii had one of the lowest unemployment rates in the nation in 2007. Hawaii's total civilian wage and salary jobs grew 1.9% to an annual average of 635,200 during 2007, a gain of 10,550 jobs over 2006. Most of the private non-agricultural sectors showed job growth during 2007, most notably professional and business services; natural resources, mining and construction, information, food services and drinking places; and health care and social assistance, while agricultural wage and salary jobs decreased 6.5%, averaging about 6,500 jobs.

#### *Taxes*

Tax revenues distributed to the State's General Fund were up \$160.9 million, or 3.6%, during 2007 compared to 2006. Among its components, general excise and use tax (GET) collections increased \$166.1 million, or 6.8%, individual net income tax collections were near flat, increasing \$2.5 million or .2%, and transient accommodations tax (TAT) collections were up \$12.0 million, or 54%.

#### *Personal Income*

Total nominal personal income, not adjusted for inflation, increased \$3.0 billion, or 6.4%, in the first nine months of 2007 compared to the same period of 2006. Among its components, the fastest growth was seen in dividends, interest, and rent (9.2%), followed by personal current transfer receipts (8.1%), supplements to wages and salaries (6.5%), and wage and salary disbursements (5.5%). Contributions for government social insurance, which are subtracted from personal income, increased by 5.9%.

#### *Prices*

Honolulu's consumer price index (CPI) increased 4.8% for 2007, much higher than a 2.8% increase for the United States (U.S.). The Honolulu increase was primarily due to increases in the housing and food and beverages components, which increased by 6.7% and 5.1%, respectively.

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

### ***Visitor Industry***

The number of visitors arriving by air decreased 1.2% in 2007 compared to 2006. A large 4.7% decline in international arrivals (visitors on flights originating outside of the U.S.) outweighed the flat change in domestic arrivals, yielding the decrease in overall arrivals. Similarly, total visitor days (visitor arrivals multiplied by average length of stay) were down 1.5% in 2007 compared to 2006. Total visitor spending, however, rose .9%, due to increases in per person per day spending. Statewide hotel occupancy rate averaged 75.3% in 2007, 4.2% lower than the average rate in 2006.

### ***Construction***

Hawaii's construction industry continued to show positive growth in 2007. In 2007, the natural resources, mining, and construction sector added 2,050 jobs to the State's economy, a 5.7% job growth from 2006. However, total value of new private building authorizations decreased \$184.6 million or 4.9% from 2006. Government contracts awarded totaled nearly \$870 million, a 1.8% decrease from 2006.

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

The latest Department of Business, Economic Development and Tourism (DBEDT) forecast for Hawaii's economy expects both real (inflation-adjusted) Personal Income growth and real state Gross Domestic Product (GDP) growth to be positive in 2008, but at a slower rate than experienced over the previous three years.

The future condition of Hawaii's economy is linked to the state of the mainland U.S. and Japanese economies. The November 2007 Blue Chip Economic Consensus Forecasts expected real GDP growth in 2007 to be 2.1% for the U.S. and 2.0% for Japan. In 2008, GDP growth is expected to be at 2.4% for the U.S. and 2.0% for Japan. The February forecast revised the real GDP growth in 2008 to 1.7% for the U.S. and 1.4% for Japan. The latest expectation for U.S. consumer price inflation is 2.2% in 2007 and 2.6% in 2008.

DBEDT expects that both total visitor arrivals to Hawaii and visitor days will decrease in 2008. Visitor expenditures, however, are projected to increase in 2008 compared to 2007. In 2008, visitor arrivals and visitor days are predicted to decrease 1.4% and 1.5%, respectively, with visitor expenditures to increase 1.5%. These projections do not take into account the recent shut down of Aloha Airlines, the State's second largest inter-island carrier, and ATA Airlines, the State's third largest trans-Pacific carrier.

DBEDT expects total wage and salary jobs to increase 1.4% in 2008. Real Personal Income is expected to grow 1.6% in 2008. Real GDP is projected to increase 2.5% in 2008.

DBEDT projects Hawaii's inflation, as measured in terms of changes in the Honolulu CPI, to increase 4.8% in 2008. The state GDP deflator is expected to grow 2.8% in 2008.

## **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.

I believe that the State's internal control is effective in accomplishing management's objectives.

By statutory provision, the State prepares a biennial budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2005, as amended by the Supplemental Appropriations Act of 2006, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various Session Laws of Hawaii. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year.

An allotment system and encumbrance accounting are utilized by the State for budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. Open encumbrances are reported as reservations of fund balances at June 30, 2007. To the extent not expended or encumbered, General Fund and Special Revenue Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

## **RISK MANAGEMENT**

The State obtains third-party coverage for property losses. The property loss limit is \$100 million per occurrence, except for flood and earthquake, which individually is a \$40 million aggregate loss, terrorism which is \$50 million per occurrence, and boiler and machinery which is \$40 million per occurrence. The State also acquires general liability insurance, medical insurance, faithful performance of duty, and depositors' forgery insurance for state employees, but is self-insured for other perils, including workers' compensation and automobile losses. Expenditures for workers' compensation, automobile losses, and general liability (for amounts not covered by insurance) are appropriated annually.

## **EMPLOYEE UNION CONTRACTS**

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

## **INDEPENDENT AUDIT**

Although the State statutes do not require an annual audit of the State's financial statements, the State engaged a firm of independent certified public accountants to audit the State's basic financial statements for the fiscal year ended June 30, 2007. 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, 2006. This was the eighteenth consecutive year that the State has received this prestigious award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year.

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

## **ACKNOWLEDGEMENTS**

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

Respectfully submitted,



RUSS K. SAITO  
Comptroller, State of Hawaii



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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Hawaii

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

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



*Oliver S. Cox*

President

*Jeffrey R. Emer*

Executive Director

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***PART II: FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

The Auditor  
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2007, which collectively comprise the State of Hawaii's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, and the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, and the Hawaii Community Development Authority. These financial statements reflect the following percentages of total assets and program revenues or additions for the indicated opinion units.

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Program Revenues / Additions
Governmental Activities	0%	0%
Business-Type Activities	87%	70%
Aggregate Discretely Presented Component Units	92%	67%
Fiduciary Funds	19%	100%

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation – Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, the University of Hawaii, the Hawaii Housing Finance Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, and the Hawaii Community Development Authority, 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Hawaii's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis,

evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2007, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and Statement of Revenue and Expenditures – Budget and Actual on pages 15 to 30, and 39 to 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the State of Hawaii's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

As discussed in Note 11 to the financial statements, the State of Hawaii adopted the provisions of Government Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, on July 1, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2008, on our consideration of the State of Hawaii's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Deloitte + Touche LLP*

May 7, 2008

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2007

---

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, 2007. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in our letter of transmittal, which can be found on pages 3 – 7 of this report.

### Financial Highlights

#### Government-Wide Highlights

The assets of the State exceeded its liabilities at June 30, 2007, by \$9.0 billion (net assets). Of this amount, \$3.0 billion (unrestricted net assets) may be used to meet the State's ongoing obligations to citizens and creditors. Net assets of governmental activities decreased by \$225.0 million and net assets of business-type activities increased by \$195.2 million for a net decrease to the State of \$29.8 million from the prior fiscal year.

#### Fund Highlights

At June 30, 2007, the State's Governmental Funds reported combined ending fund balances of \$2.4 billion, a decrease of \$489.7 million from the prior fiscal year. Of this amount, \$326.4 million, or 13.7%, of total fund balances are available for spending at the State's discretion (unreserved fund balance) and the remaining \$2.1 billion represent amounts reserved for specific purposes. The Proprietary Funds reported net assets at June 30, 2007, of \$3.2 billion, an increase of \$195.2 million during the fiscal year.

#### Long-Term Liabilities

The State's long-term liabilities decreased during the current fiscal year to \$5.8 billion, a decrease of \$295.3 million. During fiscal 2007, the State issued \$350.0 million in general obligation bonds for the purpose of financing the Hawaiian Home Lands Trust settlement and public improvement projects.

### Overview of the Basic Financial Statements

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

#### Government-Wide Financial Statements

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

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

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



## Management's Discussion and Analysis

June 30, 2007

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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 32 – 34 of this report.

### **Fund Financial Statements**

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

#### ***Governmental Funds***

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

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

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which are considered to be major funds. Data from the

## Management's Discussion and Analysis

June 30, 2007

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other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

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

The basic Governmental Funds financial statements can be found on pages 35 – 40 of this report.

### ***Proprietary Funds***

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

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

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

### ***Fiduciary Funds***

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

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

### ***Notes to Basic Financial Statements***

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 54 – 115 of this report.

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2007

### Other Supplementary Information

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

### Government-Wide Financial Analysis

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

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by \$9.0 billion as of June 30, 2007, and decreased \$29.8 million, or .3%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by \$225.0 million, or 3.8%, and business-type activities had an increase of \$195.2 million, or 6.4%. The following table was derived from the government-wide statement of net assets (2006 amounts have not been adjusted for restatements).

### Summary Schedule of Net Assets

June 30, 2007 and 2006  
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets:</b>						
Current and other assets	\$ 3,346,955	\$ 3,283,092	\$ 2,187,257	\$ 1,682,585	\$ 5,534,212	\$ 4,965,677
Capital assets, net	8,382,521	8,727,056	2,145,259	2,068,620	10,527,780	10,795,676
Total assets	11,729,476	12,010,148	4,332,516	3,751,205	16,061,992	15,761,353
<b>Liabilities:</b>						
Long-term liabilities	4,802,431	5,153,777	955,032	898,990	5,757,463	6,052,767
Other liabilities	1,182,453	593,396	139,235	212,125	1,321,688	805,521
Total liabilities	5,984,884	5,747,173	1,094,267	1,111,115	7,079,151	6,858,288
<b>Net assets:</b>						
Invested in capital assets, net of related debt	3,597,174	3,709,504	1,278,608	1,272,249	4,875,782	4,981,753
Restricted	569,006	1,285,902	655,055	217,478	1,224,061	1,503,380
Unrestricted	1,578,412	1,267,569	1,304,586	1,150,363	2,882,998	2,417,932
Total net assets	\$ 5,744,592	\$ 6,262,975	\$ 3,238,249	\$ 2,640,090	\$ 8,982,841	\$ 8,903,065

**Management's Discussion and Analysis**

June 30, 2007

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*Analysis of Net Assets*

By far the largest portion of the State's net assets (\$4.9 billion or 54.3%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets (\$1.2 billion or 13.6%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets (\$2.9 billion or 32.1%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2007, the State is able to report positive balances in all three categories of net assets for both governmental activities and business-type activities.

*Changes in Net Assets*

The State's net assets decreased by \$29.8 million, or .3%, during the fiscal year ended June 30, 2007. Approximately 61.2% of the State's total revenues came from taxes, while 25.6% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 10.9% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, and general government.

STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2007

The following financial information was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year (2006 amounts have not been adjusted for restatements).

**Summary Schedule of Changes in Net Assets  
For the Fiscal Years Ended June 30, 2007 and 2006  
(Amounts in thousands)**

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 378,500	\$ 399,616	\$ 488,564	\$ 519,174	\$ 867,064	\$ 918,790
Operating grants and contributions	1,820,886	1,726,217	—	—	1,820,886	1,726,217
Capital grants and contributions	75,697	279,323	148,597	81,145	224,294	360,468
General revenues:						
Taxes	4,882,003	4,755,131	—	—	4,882,003	4,755,131
Interest and investment income	102,295	99,546	82,046	40,122	184,341	139,668
Other	—	—	—	—	—	—
Total revenues	<u>7,259,381</u>	<u>7,259,833</u>	<u>719,207</u>	<u>640,441</u>	<u>7,978,588</u>	<u>7,900,274</u>
Expenses:						
General government	541,889	455,008	—	—	541,889	455,008
Public safety	378,409	336,362	—	—	378,409	336,362
Highways	385,267	646,336	—	—	385,267	646,336
Conservation of natural resources	68,745	76,490	—	—	68,745	76,490
Health	833,669	690,265	—	—	833,669	690,265
Welfare	1,773,505	1,709,526	—	—	1,773,505	1,709,526
Lower education	2,288,641	2,151,891	—	—	2,288,641	2,151,891
Higher education	759,777	678,338	—	—	759,777	678,338
Other education	21,127	19,183	—	—	21,127	19,183
Culture and recreation	92,444	98,121	—	—	92,444	98,121
Urban redevelopment and housing	73,991	87,789	—	—	73,991	87,789
Economic development and assistance	148,164	215,578	—	—	148,164	215,578
Interest expense	118,708	172,673	—	—	118,708	172,673
Airports	—	—	329,942	292,086	329,942	292,086
Harbors	—	—	76,831	61,408	76,831	61,408
Unemployment compensation	—	—	112,411	105,786	112,411	105,786
Nonmajor proprietary fund	—	—	4,871	2,587	4,871	2,587
Total expenses	<u>7,484,336</u>	<u>7,337,560</u>	<u>524,055</u>	<u>461,867</u>	<u>8,008,391</u>	<u>7,799,427</u>
Change in net assets	<u>(224,955)</u>	<u>(77,727)</u>	<u>195,152</u>	<u>178,574</u>	<u>(29,803)</u>	<u>100,847</u>
Net assets – beginning of year – as previously reported	6,262,975	6,340,702	2,640,090	2,465,411	8,903,065	8,806,113
Adjustments	<u>(293,428)</u>	<u>—</u>	<u>403,007</u>	<u>(3,895)</u>	<u>109,579</u>	<u>(3,895)</u>
Net assets – beginning of year – as restated	<u>5,969,547</u>	<u>6,340,702</u>	<u>3,043,097</u>	<u>2,461,516</u>	<u>9,012,644</u>	<u>8,802,218</u>
Net assets – end of year	<u>\$ 5,744,592</u>	<u>\$ 6,262,975</u>	<u>\$ 3,238,249</u>	<u>\$ 2,640,090</u>	<u>\$ 8,982,841</u>	<u>\$ 8,903,065</u>

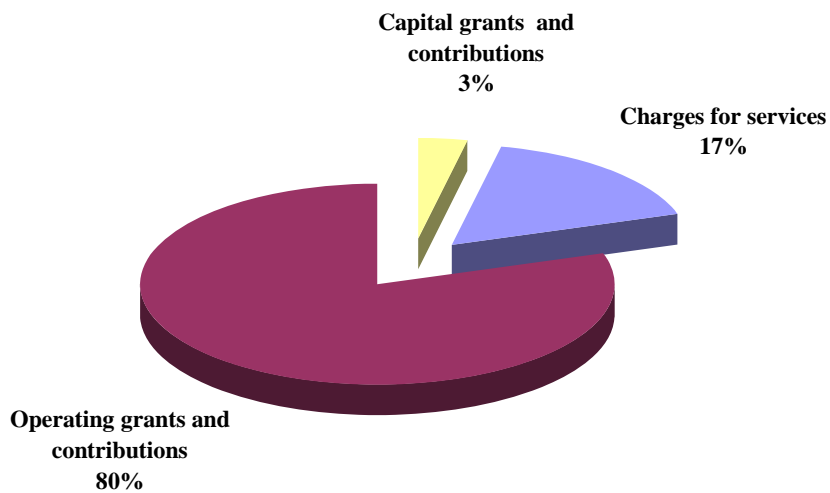
Management's Discussion and Analysis

June 30, 2007

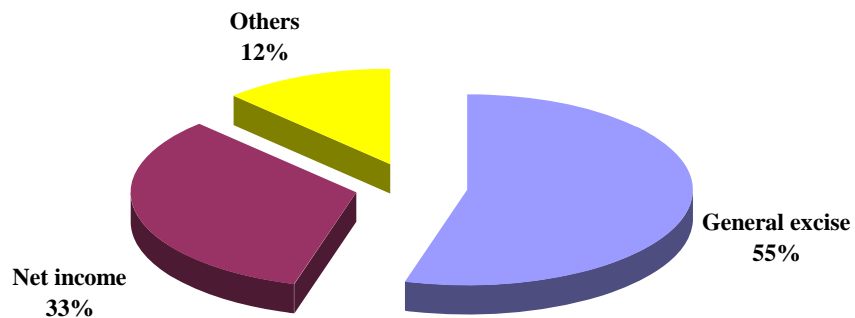
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The following charts depict revenues of the governmental activities for the fiscal year:

**Program Revenues by Source – Governmental Activities  
Fiscal Year Ended June 30, 2007**



**Tax Revenues by Source – Governmental Activities  
Fiscal Year Ended June 30, 2007**



# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2007

### *Analysis of Changes in Net Assets*

The State's net assets decreased by \$29.8 million during the current fiscal year. This decrease is explained in the governmental and business-type activities discussion below, and is primarily due to decrease in net assets of governmental activities of \$225.0 million offset by increases in the net assets of Airports, Harbors, the Unemployment Compensation Fund, and Nonmajor Proprietary Funds of \$34.1 million, \$25.0 million, \$50.9 million, and \$85.2 million, respectively.

### *Governmental Activities*

Governmental activities decreased the State's net assets by \$225.0 million. The key elements of this decrease are a result of higher expenses for health, lower and higher education, and urban redevelopment and housing.

	<b>Governmental Activities</b> <b>(Amounts in thousands)</b>	
	<b>2007</b>	<b>2006</b>
General revenues:		
Taxes	\$ 4,882,003	\$ 4,755,131
Interest and investment income and other	102,295	99,546
Total general revenues	<u>4,984,298</u>	<u>4,854,677</u>
Expenses, net of program revenues:		
General government	300,506	256,302
Public safety	299,561	266,014
Highways	266,934	527,221
Conservation of natural resources	15,183	18,401
Health	597,832	405,508
Welfare	600,891	631,621
Lower education	2,009,821	1,899,849
Higher education	759,777	678,338
Other education	20,725	14,174
Culture and recreation	82,260	88,261
Urban redevelopment and housing	7,831	(136,591)
Economic development and assistance	129,224	110,633
Interest expense	118,708	172,673
Total governmental activities expenses, net of program revenues	<u>5,209,253</u>	<u>4,932,404</u>
Decrease in governmental activities net assets	<u>\$ (224,955)</u>	<u>\$ (77,727)</u>

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2007

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Tax revenues increased by \$126.9 million, or 2.7%, from the previous fiscal year. The increase was primarily due to an increase in general excise taxes of \$300.0 million, a decrease in individual and corporate income taxes of \$54.7 million, and a decrease in transient accommodations taxes of \$116.8 million collected by the Hawaii Tourism Authority, which has been reclassified as a Component Unit in fiscal 2007.

Highways net expenses decreased by \$260.3 million, or 49.4%, from the previous fiscal year due to a decrease in depreciation expense of \$31.1 million and an increase in capitalization of capital project costs of \$300.0 million.

Health net expenses increased by \$192.3 million, or 47.4%, from the previous fiscal year due to an increase in expenditures for medical services programs, including public health services, and adult and adolescent behavioral health services.

Lower education net expenses increased by \$110.0 million or 5.8% from the previous fiscal year due primarily to increase classroom instruction expenses, such as salaries and benefits for teachers and instructional materials including pupil-use technology of \$258.9 million; increase in repairs and renovation expenses of \$55.3 million; offset by an increase in capitalization of major repairs and renovation costs of \$176.7 million and an increase in operating grants of \$26.6 million.

Higher education net expenses increased by \$81.4 million or 12.0% due mainly to a \$52.5 million increase in compensation and benefits because of scheduled pay rate increases and addition of new faculty and administrative employees, \$15.6 million increase supplies and materials attributable to reclassified controlled property acquisitions, \$3.4 million for repairs and maintenance in buildings and structures, and \$5.5 million increase in depreciation expense.

Welfare net expenses decreased by \$30.7 million, or 4.9%, from the previous fiscal year due to a decrease in expenses and an increase in intergovernmental program revenues.

Urban redevelopment and housing net expenses increased by \$144.4 million from the previous fiscal year due to a decrease of \$203.9 million in capital grants.

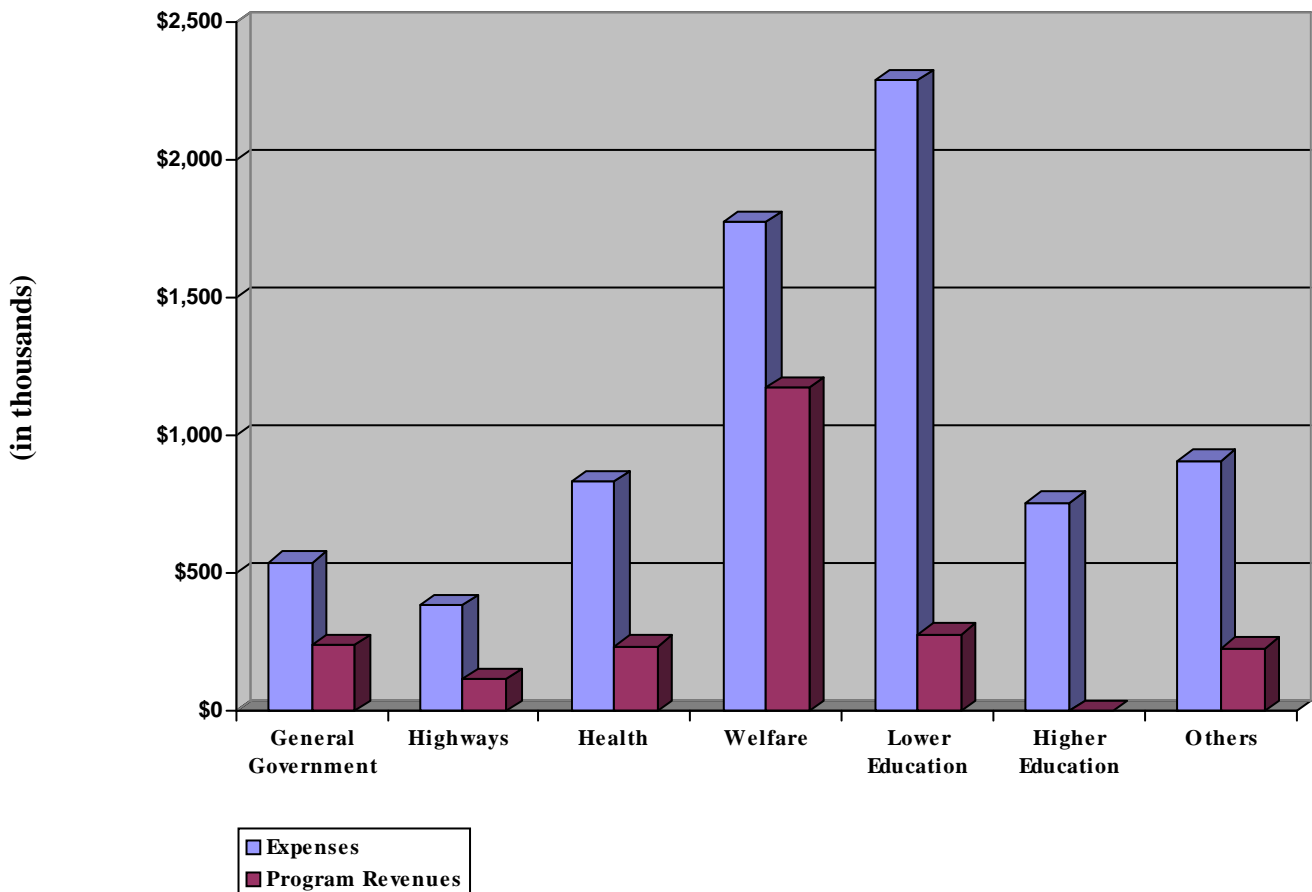


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A comparison of the cost of services by function of the State’s governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental 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, 2007**



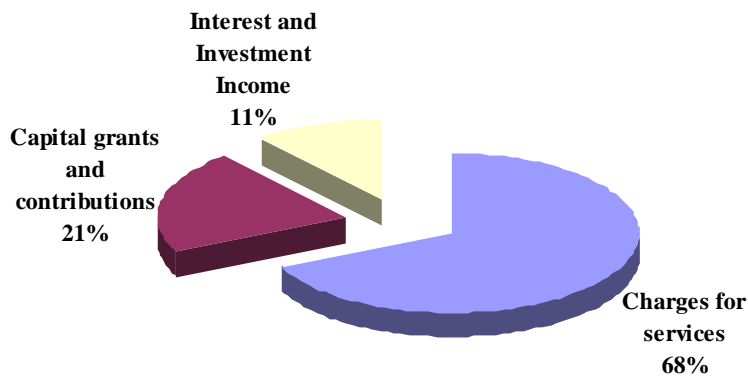
Management’s Discussion and Analysis

June 30, 2007

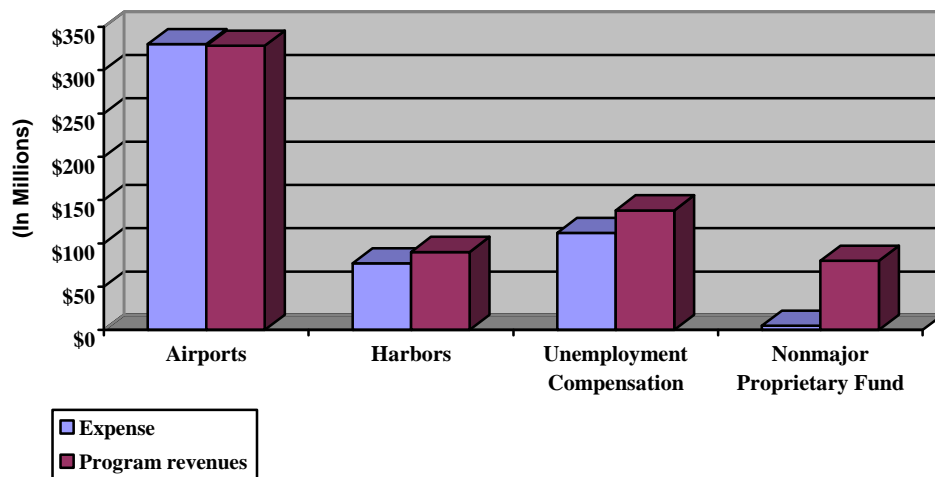
*Business-Type Activities*

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, 2007**



**Expenses and Program Revenues – Business-Type Activities  
Fiscal Year Ended June 30, 2007**



# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2007

Business-type activities increased the State's net assets by \$195.2 million in fiscal 2007, compared to an increase of \$178.6 million in fiscal 2006. Key elements of this increase are as follows:

- Airport's net assets increased \$34.1 compared to an increase of \$74.6 million in the prior fiscal year. Federal grants increased by \$12.2 million; however, capital contributions decreased \$21.9 million and operating expenses increased \$41.4 million, primarily attributed to higher repair and maintenance expenses.
- Harbor's net assets increased \$25.0 million in fiscal 2007 compared to an increase of \$28.1 million in fiscal 2006. This change was primarily due to higher operating expenses.
- The Unemployment Compensation Fund's net assets increased \$50.9 million compared to an increase of \$75.4 million in the prior fiscal year. The change was primarily due to a decrease in unemployment tax revenues of \$43.1 million and an increase in unemployment benefits paid of \$6.6 million.
- Nonmajor Proprietary Fund's net assets increased \$85.2 million in fiscal 2007 compared to an increase of \$.5 million in fiscal 2006. This large increase was attributed to activities of the Water Pollution Control Fund and the Drinking Water Treatment Loan Fund being presented within the Proprietary Funds beginning in fiscal 2007. These funds were previously presented within the Governmental Funds

Key elements of the State's business-type activities for the fiscal years ended June 30, 2007 and 2006 are as follows:

	Business-Type Activities									
	(Amounts in thousands)									
	Program Revenues						Program Revenues Net of Expenses			
	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Net of Expenses	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	
Airports	\$ 256,843	\$ 251,678	\$ 71,363	\$ 81,023	\$ 328,206	\$ 332,701	\$ 329,942	\$ 292,086	\$ (1,736)	\$ 40,615
Harbors	85,663	83,217	4,372	122	90,035	83,339	76,830	61,408	13,205	21,931
Unemployment compensation	138,070	181,146	—	—	138,070	181,146	112,411	105,786	25,659	75,360
Nonmajor proprietary funds	7,987	3,133	72,862	—	80,849	3,133	4,871	2,587	75,978	546
Total	\$ 488,563	\$ 519,174	\$ 148,597	\$ 81,145	\$ 637,160	\$ 600,319	\$ 524,054	\$ 461,867	\$ 113,106	\$ 138,452

### Financial Analysis of the State's Individual Funds

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

#### Governmental Funds

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

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2007

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As of the end of the current fiscal year, the State's Governmental Funds reported combined ending fund balances of \$2.4 billion, a decrease of \$223.1 million from the prior fiscal year (as restated). Approximately \$326.4 million, or 13.7%, of this total amount constitutes unreserved fund balance, which is available for spending at the State's discretion in the coming fiscal year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use (\$1.6 billion), (2) for notes and loan receivable, advances, and investments (\$68.6 million), (3) for federal aid highway projects encumbrances (\$294.1 million), or (4) for a variety of other restricted purposes (\$50.3 million).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$881.3 million, a decrease of \$132.7 million, or 13.1%, from the prior fiscal year, and the reserved fund balance was \$414.9 million, an increase of \$165.3 million, or 66.2%, over the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 19.8% of total General Fund expenditures, a decrease of 5.6% from the prior fiscal year, while total fund balance represents 29.1% of that same amount, a decrease of 2.6% from the prior fiscal year.

The fund balance of the State's General Fund increased by \$32.6 million during the current fiscal year, which was due primarily to an increase in tax revenues. The fund balance of the State's Capital Projects Fund decreased by \$118.7 million during the current fiscal year. Because of adequate cash reserves, the State issued the same amount of general obligation bonds as the previous fiscal year, which was the primary reason for the decrease in fund balance. The fund balance of the Med-Quest Special Fund, presented for the first time as a major governmental fund this fiscal year, increase \$12.7 million. The fund balance of the State's other nonmajor Governmental Funds decreased by \$149.7 million during the current fiscal year. The decrease was primarily due to decreases in transient accommodations tax revenues and intergovernmental revenues, and increases in expenditures for health programs and lower education.

### ***Proprietary Funds***

The State's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net assets of \$34.1 million, Harbors had an increase in net assets of \$25.0 million, the Unemployment Compensation Fund had an increase in net assets of \$50.9 million, and the Nonmajor Proprietary Funds had an increase in net assets of \$85.2 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

### ***General Fund Budgetary Highlights***

The General Fund revenues were \$19.1 million, or 0.4%, less than the final budget. The decrease was primarily attributed to lower corporate and individual net income taxes of \$126.9 million and higher general excise taxes, charges for current services, fines, forfeitures and penalties, and other revenues of \$30.1 million, \$21.8 million, \$20.2 million and \$26.1 million, respectively

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2007

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The General Fund expenditure budget increased by \$357.4 million from the original to the final budget. Most of the increase is due to the original budget consisting only of the appropriations contained in the general appropriation acts of the executive and judicial branches. Amounts that were not part of this original budget include: \$206.0 million in employees' salary adjustments, \$33.9 million for the State Legislature, \$26.9 million for various health programs, including adult mental health, early intervention, and developmental disability, \$23.5 million for housing programs, \$10.8 million for energy self-sufficiency, \$8.9 million in grants, and \$8.1 million for lower education programs.

The difference between the final budget and actual expenditures on a budgetary basis was \$177.9 million. The positive variance in general government is primarily attributed to \$15.5 million of appropriations made to the State Legislature that can be carried over to the next fiscal year and \$17.0 million appropriated for employees' salary adjustments that lapsed. The positive variance in general government was also due to a reduction in health benefit premiums of approximately \$28.4 million because of lower rates for retirees; \$13.7 million in general assistance funding not required because the anticipated increase in caseload did not materialize which contributed to the positive variance in welfare. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over \$42.6 million of unencumbered appropriations into the next fiscal year. By law, the Department of Education is allowed to carry over up to 5% of its unencumbered appropriations.

### Capital Asset and Debt Administration

#### *Capital Assets*

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$10.5 billion (net of accumulated depreciation of \$7.1 billion), a decrease of \$267.9 million from fiscal 2006. The decrease is due to capital assets (net of accumulated depreciation) for the Hawaii Community Development Authority and the Hawaii Tourism Authority of \$181.4 million and \$272.7 million, respectively, which are being reflected as capital assets of Component Units in fiscal 2007. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2007, included the following:

- \$10.0 million for Aloha Stadium structural repairs – first of four years
- \$9.1 million for repair, alterations, and improvements for correctional facilities throughout the State
- \$20.0 million for a new Maui adult detention facility
- \$8.7 million for construction of a multi-lane highway in Kapolei, Oahu
- \$143.3 million for various capital improvement projects for public school facilities throughout the State

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

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2007

### *Debt Administration*

At the end of the current fiscal year, the State had total bonded debt outstanding of \$5.3 billion. Of this amount, \$4.1 billion comprises debt backed by the full faith and credit of the State and \$1.2 billion (i.e., revenue bonds) is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

#### Long-Term Debt

June 30, 2007 and 2006

(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
General obligation bonds	\$ 4,079,714	\$ 4,322,964	\$ 37	\$ 137	\$ 4,079,751	\$ 4,323,101
Revenue bonds	283,310	306,255	939,349	883,823	1,222,659	1,190,078
Total	\$ 4,363,024	\$ 4,629,219	\$ 939,386	\$ 883,960	\$ 5,302,410	\$ 5,513,179

The State's total long-term debt decreased by \$210.8 million, or 3.8%, during the current fiscal year. The key factor in this decrease was the reporting of \$286.2 million of general obligation bonds payable of the Hawaii Tourism Authority as a discretely presented Component Unit in fiscal 2007. The State issued \$350 million of general obligation bonds for financing the Hawaiian Home Lands Trust settlement and public improvement projects.

As of June 30, 2007, the State's general obligation bonds have been rated by Moody's Investors Service (Aaa), by Standard & Poor's Corporation (AAA), and by Fitch Ratings (AAA) based upon the bonds being insured by AMBAC, FGIC, FSA, and MBIA (Note: As of April 11, 2008, the ratings for FGIC were revised to Baa3, BB, and BBB by Moody's Investors Service, Standard and Poor's Corporation, and Fitch Ratings, respectively. The ratings for AMBAC and MBIA were also revised to AA by Fitch Ratings.) The State's underlying bond ratings by Moody's Investors Service, Standard & Poor's Corporation, and Fitch Ratings, are "Aa2", "AA", and "AA", respectively.

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, 2007 was \$343.4 million.

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

### **Other Post-Employment Benefits (OPEB)**

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) beginning in fiscal 2007, adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB 43)*. The EUTF, an agent multiple-employer defined benefit plan, reports retiree health care benefits in the Fiduciary Funds financial statements in accordance

# STATE OF HAWAII

## Management's Discussion and Analysis

June 30, 2007

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with GASB 43 and benefits for active employees in Proprietary Funds in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

The provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, will be implemented by the State for fiscal 2008. This new accounting standard will require the State to measure and disclose its liability for OPEB and the status of its efforts to fund that liability. Initial valuation reports by an independent actuarial firm for the State's liability were released in April 2007 for the EUTF and the Hawaii Voluntary Employee's Beneficiary Association Trust (VEBA).

According to the reports, the combined actuarially determined OPEB liability for the EUTF and VEBA, assuming the State continues to fund OPEB costs on a pay-as-you-go basis, was \$8.2 billion as of July 1, 2006. The State has begun looking into alternative strategies that could be implemented to manage the high cost of providing retiree health benefits, but until this analysis is completed, the State expects to continue to fund OPEB costs on a pay-as-you-go basis.

### Restatements

Adjustments were made to the beginning net assets of the government-wide financial statements and the beginning fund balances of the Governmental Funds financial statements because of the adoption of GASB Statement No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, and various reclassifications and misstatements. The restated balances have not been used for comparative purposes.

### Economic Factors and Next Year's Budget

Unemployment is at higher levels with the statewide seasonally adjusted unemployment rate being 2.7% for the month of October 2007. One year ago, the State's seasonally adjusted unemployment rate stood at 2.1%, while the seasonally adjusted national unemployment rate was 4.4%.

Cumulative tax collections for the first five months of fiscal 2008 exceeded \$2.2 billion, or \$130.7 million more than the corresponding period last year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 3.5% in the same period.

The Council on Revenues in January 2008, estimated that the General Fund growth rate would be 4.9% in fiscal 2008 and 4.1% for fiscal 2009. Actual General Fund tax collections rose by 3.2% in the first five months of fiscal 2008 over the corresponding 2007 period. Higher general excise and use tax collections were the primary factors underlying this strong performance. A large part of this increase is attributable to the Honolulu County Surcharge which was not in effect until January 1, 2007. In November 2007, the Council on Revenues forecast the State's growth at 5.9% in 2008 total personal income.

### Requests for Information

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

***BASIC FINANCIAL STATEMENTS***



# STATE OF HAWAII

## STATEMENT OF NET ASSETS

JUNE 30, 2007

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS (Note 3)	\$ 562,332	\$1,444,082	\$ 2,006,414	\$ 353,359
RECEIVABLES:				
Taxes	388,100	32,203	420,303	-
Accounts and accrued interest — net	20,112	31,933	52,045	179,897
Notes, loans, mortgages, and contributions — net (Note 10)	70,207	-	70,207	122,318
Federal government	109,938	1,897	111,835	10,978
Other — net (Note 12)	44,964	6,683	51,647	22,287
Total receivables	633,321	72,716	706,037	335,480
INTERNAL BALANCES (Note 8)	36,654	(36,654)	-	-
DUE FROM COMPONENT UNITS	33,830	-	33,830	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	257,312
INVESTMENTS (Note 3)	1,964,520	-	1,964,520	778,732
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	20,849
Materials and supplies	-	481	481	23,295
Total inventories	-	481	481	44,144
NET INVESTMENT IN FINANCING LEASE	-	-	-	15,579
RESTRICTED ASSETS (Notes 3, 6, and 10)	-	457,738	457,738	341,143
OTHER ASSETS:				
Prepaid expenses	5,896	9,349	15,245	13,247
Bond issue and deferred costs — net	85,901	6,252	92,153	2,156
Promissory note receivable (Note 10)	-	233,293	233,293	-
Other	24,501	-	24,501	22,333
Total other assets	116,298	248,894	365,192	37,736
CAPITAL ASSETS (Notes 4, 5, 6, 10, and 14):				
Land and land improvements	2,014,376	575,191	2,589,567	407,977
Infrastructure	7,923,678	-	7,923,678	195,195
Construction in progress	733,327	205,223	938,550	254,992
Buildings, improvements, and equipment	3,265,330	2,892,442	6,157,772	2,851,734
Accumulated depreciation	(5,554,190)	(1,527,597)	(7,081,787)	(1,469,762)
Total capital assets — net	8,382,521	2,145,259	10,527,780	2,240,136
<b>TOTAL</b>	<b>\$11,729,476</b>	<b>\$4,332,516</b>	<b>\$16,061,992</b>	<b>\$4,403,621</b>

(Continued)

# STATE OF HAWAII

## STATEMENT OF NET ASSETS

JUNE 30, 2007

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>LIABILITIES</b>				
LIABILITIES:				
Vouchers and contracts payable	\$ 359,682	\$ 39,932	\$ 399,614	\$ 126,798
Other accrued liabilities	222,225	49,278	271,503	136,473
Prepaid airport use charge fund (Note 10)	-	1,534	1,534	-
Due to Component Units	257,312	-	257,312	-
Due to Primary Government	-	-	-	33,830
Due to federal government	-	-	-	18
Deferred revenue	-	3,611	3,611	-
Estimated future costs of land sold	-	-	-	29,880
Unamortized bond premium (Note 5)	229,082	-	229,082	-
Premiums payable	-	44,880	44,880	-
Other	114,152	-	114,152	25,215
Long-term liabilities:				
Due within one year:				
Payable from restricted assets:				
Revenue bonds payable — net (Notes 6, 7, and 14)	-	44,978	44,978	-
General obligation bonds payable (Notes 5 and 7)	312,835	9	312,844	10,982
Notes, mortgages, and installment contracts payable	-	-	-	27,415
Accrued vacation and retirement benefits payable (Note 7)	66,329	3,171	69,500	10,785
Revenue bonds payable — net (Notes 6, 7, and 14)	14,885	-	14,885	8,968
Reserve for losses and loss adjustment costs (Notes 7 and 13)	57,297	1,286	58,583	19,020
Capital lease obligations (Notes 7 and 10)	3,610	-	3,610	7,180
Deferred commitment fees	-	-	-	473
Due in more than one year:				
General obligation bonds payable (Notes 5 and 7)	3,766,879	28	3,766,907	279,816
Notes, mortgages, and installment contracts payable	-	-	-	17,201
Accrued vacation and retirement benefits payable (Note 7)	117,539	6,864	124,403	55,826
Revenue bonds payable — net (Notes 6, 7, and 14)	268,425	894,371	1,162,796	618,719
Reserve for losses and loss adjustment costs (Notes 7 and 13)	118,212	3,372	121,584	7,369
Capital lease obligations (Notes 7 and 10)	75,480	-	75,480	48,911
Premiums on bonds payable	-	-	-	1,913
Other	940	953	1,893	63,293
<b>TOTAL LIABILITIES</b>	<b>5,984,884</b>	<b>1,094,267</b>	<b>7,079,151</b>	<b>1,530,085</b>
<b>NET ASSETS</b>				
INVESTED IN CAPITAL ASSETS — Net of related debt	3,597,174	1,278,608	4,875,782	1,608,759
RESTRICTED FOR:				
Capital maintenance projects	144,438	-	144,438	-
Health and welfare	106,817	-	106,817	-
Natural resources	109,909	-	109,909	-
Hawaiian programs	35,011	-	35,011	-
Budget stabilization	61,451	-	61,451	-
Other purposes	89,676	-	89,676	-
Bond requirements and other	21,704	655,055	676,759	950,012
UNRESTRICTED	1,578,412	1,304,586	2,882,998	314,765
<b>TOTAL NET ASSETS</b>	<b>\$ 5,744,592</b>	<b>\$ 3,238,249</b>	<b>\$ 8,982,841</b>	<b>\$ 2,873,536</b>

See accompanying notes to basic financial statements.

(Concluded)

# STATE OF HAWAII

## STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (Amounts in thousands)

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
<b>PRIMARY GOVERNMENT:</b>								
Governmental Activities:								
General government	\$ 541,889	\$ 168,877	\$ 72,506	\$ -	\$ (300,506)	\$ -	\$ (300,506)	
Public safety	378,409	28,780	50,068	-	(299,561)	-	(299,561)	
Highways	385,267	5,259	37,377	75,697	(266,934)	-	(266,934)	
Conservation of natural resources	68,745	26,331	27,231	-	(15,183)	-	(15,183)	
Health	833,669	98,681	137,156	-	(597,832)	-	(597,832)	
Welfare	1,773,505	1,031	1,171,583	-	(600,891)	-	(600,891)	
Lower education	2,288,641	35,327	243,493	-	(2,009,821)	-	(2,009,821)	
Higher education	759,777	-	-	-	(759,777)	-	(759,777)	
Other education	21,127	36	366	-	(20,725)	-	(20,725)	
Culture and recreation	92,444	8,000	2,184	-	(82,260)	-	(82,260)	
Urban redevelopment and housing	73,991	488	65,672	-	(7,831)	-	(7,831)	
Economic development and assistance	148,164	5,690	13,250	-	(129,224)	-	(129,224)	
Interest expense	118,708	-	-	-	(118,708)	-	(118,708)	
Total governmental activities	7,484,336	378,500	1,820,886	75,697	(5,209,253)	-	(5,209,253)	
Business-Type Activities:								
Airports	329,942	256,844	-	71,363	-	(1,735)	(1,735)	
Harbors	76,831	85,663	-	4,372	-	13,204	13,204	
Unemployment compensation	112,411	138,070	-	-	-	25,659	25,659	
Nonmajor proprietary funds	4,871	7,987	-	72,862	-	75,978	75,978	
Total business-type activities	524,055	488,564	-	148,597	-	113,106	113,106	
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>8,008,391</b>	<b>867,064</b>	<b>1,820,886</b>	<b>224,294</b>	<b>(5,209,253)</b>	<b>113,106</b>	<b>(5,096,147)</b>	
<b>COMPONENT UNITS:</b>								
University of Hawaii	1,184,094	249,585	373,237	-	-	-	-	(561,272)
Hawaii Housing Finance and Development Corporation	54,250	60,160	23,107	-	-	-	-	29,017
Hawaii Public Housing Authority	112,003	22,993	49,164	15,082	-	-	-	(24,764)
Hawaii Health Systems Corporation	438,746	367,402	369	38,715	-	-	-	(32,260)
Hawaii Tourism Authority	103,068	10,569	-	-	-	-	-	(92,499)
Hawaii Community Development Authority	10,508	7,641	-	-	-	-	-	(2,867)
Hawaii Hurricane Relief Fund	203	-	-	-	-	-	-	(203)
<b>TOTAL COMPONENT UNITS</b>	<b>1,902,872</b>	<b>718,350</b>	<b>445,877</b>	<b>53,797</b>				<b>(684,848)</b>
<b>GENERAL REVENUES:</b>								
Taxes:								
General excise tax					2,659,339	-	2,659,339	-
Net income tax — corporations and individuals					1,620,452	-	1,620,452	-
Public service companies tax					124,017	-	124,017	-
Transient accommodations tax					7,382	-	7,382	-
Tobacco and liquor taxes					131,813	-	131,813	-
Liquid fuel tax					87,179	-	87,179	-
Tax on premiums of insurance companies					96,385	-	96,385	-
Vehicle weight and registration tax					59,422	-	59,422	-
Rental motor/tour vehicle surcharge tax					49,479	-	49,479	-
Franchise tax					19,012	-	19,012	-
Public service companies tax					27,523	-	27,523	-
Interest and investment income					102,295	82,046	184,341	60,735
Payments from the State — net					-	-	-	841,670
Other					-	-	-	74,051
Total general revenues					4,984,298	82,046	5,066,344	976,456
<b>CHANGE IN NET ASSETS</b>					<b>(224,955)</b>	<b>195,152</b>	<b>(29,803)</b>	<b>291,608</b>
<b>NET ASSETS — Beginning of year — as previously reported</b>					<b>6,262,975</b>	<b>2,640,090</b>	<b>8,903,065</b>	<b>2,305,552</b>
<b>ADJUSTMENTS (Note 15)</b>					<b>(293,428)</b>	<b>403,007</b>	<b>109,579</b>	<b>276,376</b>
<b>NET ASSETS — Beginning of year — as restated</b>					<b>5,969,547</b>	<b>3,043,097</b>	<b>9,012,644</b>	<b>2,581,928</b>
<b>NET ASSETS — End of year</b>					<b>\$ 5,744,592</b>	<b>\$ 3,238,249</b>	<b>\$ 8,982,841</b>	<b>\$ 2,873,536</b>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## GOVERNMENTAL FUNDS

### BALANCE SHEET

JUNE 30, 2007

(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS (Note 3)	\$ 171,720	\$ 66,193	\$ 7,639	\$ 316,780	\$ 562,332
RECEIVABLES:					
Taxes	388,100	-	-	-	388,100
Accrued interest	9,446	-	-	7,442	16,888
Notes and loans — net	4,175	-	-	66,032	70,207
Federal government	-	-	109,938	-	109,938
Other	68	-	-	17,796	17,864
DUE FROM OTHER FUNDS (Note 8)	154,083	-	-	19,542	173,625
DUE FROM PROPRIETARY FUNDS (Note 8)	-	37,047	-	-	37,047
DUE FROM COMPONENT UNITS	33,830	-	-	-	33,830
INVESTMENTS (Note 3)	832,645	319,833	10,000	802,042	1,964,520
OTHER ASSETS	-	-	-	24,501	24,501
<b>TOTAL</b>	<b><u>\$ 1,594,067</u></b>	<b><u>\$ 423,073</u></b>	<b><u>\$ 127,577</u></b>	<b><u>\$1,254,135</u></b>	<b><u>\$ 3,398,852</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
LIABILITIES:					
Vouchers and contracts payable	\$ 76,367	\$ 42,996	\$ 110,167	\$ 130,152	\$ 359,682
Other accrued liabilities	153,408	52,941	-	11,903	218,252
Due to other funds (Note 8)	42	109,400	-	64,183	173,625
Due to Component Units	41,558	193,326	-	-	234,884
Due to Proprietary Fund (Note 8)	-	-	-	393	393
Deferred Revenue	26,482	-	-	-	26,482
Payable from restricted assets — matured bonds and interest payable	-	-	-	940	940
Total liabilities	<u>297,857</u>	<u>398,663</u>	<u>110,167</u>	<u>207,571</u>	<u>1,014,258</u>
FUND BALANCES:					
Reserved for:					
Continuing appropriations	410,714	842,232	4,754	387,539	1,645,239
Receivables and advances	4,185	-	-	64,387	68,572
Federal aid highway projects encumbrances	-	294,102	-	-	294,102
Bond redemption and other	-	-	-	50,331	50,331
Unreserved for major funds:					
Designated for future expenditures	224,260	-	-	-	224,260
Undesignated	657,051	(1,111,924)	-	-	(454,873)
Unreserved for nonmajor Special Revenue Funds:					
Designated for future expenditures	-	-	-	83,286	83,286
Undesignated	-	-	12,656	461,021	473,677
Total fund balances	<u>1,296,210</u>	<u>24,410</u>	<u>17,410</u>	<u>1,046,564</u>	<u>2,384,594</u>
<b>TOTAL</b>	<b><u>\$ 1,594,067</u></b>	<b><u>\$ 423,073</u></b>	<b><u>\$ 127,577</u></b>	<b><u>\$1,254,135</u></b>	<b><u>\$ 3,398,852</u></b>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2007 (Amounts in thousands)

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TOTAL FUND BALANCE — Governmental Funds	\$ 2,384,594
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land and land improvements	2,014,376
Infrastructure	7,923,678
Construction in progress	733,327
Buildings, improvements, and equipment	3,265,330
Accumulated depreciation	<u>(5,554,190)</u>
	8,382,521
Accrued interest and other payables are not recognized in Governmental Funds.	<u>(343,233)</u>
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in Governmental Funds, such as accrued interest and settlement receivables	<u>148,601</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	(4,079,714)
Accrued vacation payable	(183,868)
Revenue bonds payable	(283,310)
Reserve for losses and loss adjustment costs	(175,509)
Land transfer agreement with the HHFDC	(26,400)
Capital lease obligations	<u>(79,090)</u>
	<u>(4,827,891)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 5,744,592</u>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (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	\$2,632,485	\$ -	\$ -	\$ -	\$2,632,485
Net income tax — corporations and individuals	1,618,570	-	-	-	1,618,570
Public service companies tax	124,017	-	-	-	124,017
Transient accommodations tax	6,382	-	-	1,000	7,382
Tobacco and liquor taxes	130,281	-	-	1,532	131,813
Liquid fuel tax	-	-	-	87,179	87,179
Tax on premiums of insurance companies	94,377	-	-	2,008	96,385
Vehicle weight and registration tax	-	-	-	59,422	59,422
Rental motor/tour vehicle surcharge tax	-	-	-	49,479	49,479
Franchise tax	-	-	-	2,000	2,000
Other	24,923	-	-	19,612	44,535
Total taxes	4,631,035	-	-	222,232	4,853,267
Interest and investment income	71,748	-	264	50,594	122,606
Charges for current services	87,329	-	134	230,772	318,235
Intergovernmental	15,293	-	748,506	964,096	1,727,895
Rentals	564	-	-	21,075	21,639
Fines, forfeitures, and penalties	20,712	-	-	7,776	28,488
Licenses and fees	1,245	-	-	29,592	30,837
Revenues from private sources	1,831	-	-	37,570	39,401
Other	23,255	-	13,900	90,289	127,444
Total revenues	4,853,012	-	762,804	1,653,996	7,269,812
<b>EXPENDITURES:</b>					
Current:					
General government	351,674	68,445	-	38,117	458,236
Public safety	256,072	8,809	-	111,151	376,032
Highways	-	142,634	-	195,228	337,862
Conservation of natural resources	38,445	14,111	-	55,022	107,578
Health	558,748	25,832	-	247,753	832,333
Welfare	702,526	795	745,078	322,308	1,770,707
Lower education	1,776,222	164,471	-	364,587	2,305,280
Higher education	660,336	99,441	-	-	759,777
Other education	5,651	838	-	13,633	20,122
Culture and recreation	42,259	16,013	-	34,302	92,574
Urban redevelopment and housing	28,060	980	-	141,574	170,614
Economic development and assistance	35,586	20,107	-	91,453	147,146
Other	3,416	-	-	3,832	7,248
Debt service	-	-	-	502,733	502,733
Total expenditures	4,458,995	562,476	745,078	2,121,693	7,888,242
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	394,017	(562,476)	17,726	(467,697)	(618,430)
<b>OTHER FINANCING SOURCES (USES):</b>					
Issuance of general obligation and refunding general obligation bonds — par (Notes 5 and 7)	-	350,000	-	-	350,000
Issuance of general obligation and refunding general obligation bonds — premium (Notes 5 and 7)	20,803	-	-	-	20,803
Issuance of certificates of participation (Note 10)	-	-	-	24,500	24,500
Transfers in (Note 9)	50,558	125,025	5,227	615,385	796,195
Transfers out (Note 9)	(432,737)	(31,277)	(10,298)	(321,883)	(796,195)
Total other financing sources (uses)	(361,376)	443,748	(5,071)	318,002	395,303
<b>NET CHANGE IN FUND BALANCES</b>	32,641	(118,728)	12,655	(149,695)	(223,127)
<b>FUND BALANCES — Beginning of year — as previously reported</b>	1,263,569	194,878	4,755	1,411,061	2,874,263
<b>ADJUSTMENTS (Note 15)</b>	-	(51,740)	-	(214,802)	(266,542)
<b>FUND BALANCES — Beginning of year — as restated</b>	1,263,569	143,138	4,755	1,196,259	2,607,721
<b>FUND BALANCES — End of year</b>	\$1,296,210	\$ 24,410	\$ 17,410	\$1,046,564	\$2,384,594

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (Amounts in thousands)

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TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	\$ (223,127)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in Governmental Funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay — net of disposals	433,070
Depreciation expense (Note 4)	<u>(337,010)</u>
Excess of capital outlay over depreciation expense	<u>96,060</u>
Bond proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bonds issued.	<u>(395,303)</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 assets. In the current year, these amounts consist of:	
Bond principal retirement	384,025
Capital lease payments	<u>3,445</u>
Total long-term debt repayment	<u>387,470</u>
Revenue timing differences result in greater revenue in the government-wide financial statements.	<u>(10,418)</u>
Bond issue and deferred costs reflected as other financing uses in Governmental Funds and reported in the statement of net assets — net of amortization.	<u>15,017</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 accrued vacation payable	1,155
Change in accrued liability for land transfer agreement with the HHFDC	2,200
Change in reserve for losses and loss adjustment costs	<u>(98,009)</u>
	<u>(94,654)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (224,955)</u>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## GENERAL FUND

### STATEMENT OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(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	\$ 2,382,694	\$ 2,527,087	\$ 2,557,644	\$ 30,557
Net income tax:				
Corporations	98,041	134,363	81,834	(52,529)
Individuals	1,488,704	1,634,464	1,560,065	(74,399)
Inheritance and estate tax	-	-	162	162
Liquor permits and tax	45,652	47,323	46,034	(1,289)
Public service companies tax	136,903	128,732	124,017	(4,715)
Tobacco tax	93,717	88,878	84,247	(4,631)
Tax on premiums of insurance companies	83,000	88,000	94,377	6,377
Franchise tax (banks and other financial institutions)	19,760	17,933	17,012	(921)
Transient accommodations tax	17,808	17,808	17,076	(732)
Other taxes, primarily conveyances tax	15,243	8,434	7,749	(685)
Total taxes	<u>4,381,522</u>	<u>4,693,022</u>	<u>4,590,217</u>	<u>(102,805)</u>
Non-taxes:				
Interest and investment income	29,572	53,247	62,761	9,514
Charges for current services	149,062	152,478	174,251	21,773
Intergovernmental	5,047	5,382	15,010	9,628
Rentals	6,095	2,017	564	(1,453)
Fines, forfeitures, and penalties	545	534	20,712	20,178
Licenses and fees	1,006	1,002	1,245	243
Revenues from private sources	2,000	2,800	1,831	(969)
Debt service requirements	49,229	49,205	47,850	(1,355)
Other	141,712	163,495	189,617	26,122
Total non-taxes	<u>384,268</u>	<u>430,160</u>	<u>513,841</u>	<u>83,681</u>
Total revenues	<u>4,765,790</u>	<u>5,123,182</u>	<u>5,104,058</u>	<u>(19,124)</u>
<b>EXPENDITURES:</b>				
General government	669,527	733,696	655,227	78,469
Public safety	217,855	248,139	239,111	9,028
Conservation of natural resources	31,821	39,970	38,948	1,022
Health	398,056	440,901	438,859	2,042
Hospitals	34,154	48,740	48,738	2
Welfare	697,816	714,773	693,962	20,811
Lower education	1,917,528	2,004,595	1,957,618	46,977
Higher education	614,890	623,349	623,240	109
Other education	5,175	5,254	5,017	237
Culture and recreation	36,240	45,227	41,051	4,176
Urban redevelopment and housing	1,068	1,151	965	186
Economic development and assistance	31,918	47,608	46,876	732
Housing	8,409	31,916	26,771	5,145
Social security and pension contributions	207,082	239,435	230,634	8,801
Other	-	4,218	4,037	181
Total expenditures	<u>4,871,539</u>	<u>5,228,972</u>	<u>5,051,054</u>	<u>177,918</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(105,749)	(105,790)	53,004	158,794
OTHER FINANCING SOURCES — Transfers in	<u>14,343</u>	<u>32,741</u>	<u>38,006</u>	<u>5,265</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>\$ (91,406)</u>	<u>\$ (73,049)</u>	<u>\$ 91,010</u>	<u>\$ 164,059</u>

See accompanying notes to basic financial statements.



# STATE OF HAWAII

## MED-QUEST SPECIAL REVENUE FUND STATEMENT OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS) FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
Liquid fuel tax:				
Highways	\$ -	\$ -	\$ -	\$ -
Boating	-	-	-	-
Airports	-	-	-	-
Vehicle registration fee tax	-	-	-	-
State vehicle weight tax	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-
Employment and training fund assessment	-	-	-	-
General excise tax	-	-	-	-
Tobacco tax	-	-	-	-
Conveyances tax	-	-	-	-
Environmental response tax	-	-	-	-
Hospital and nursing facility tax	-	-	-	-
Transient accommodations tax	-	-	-	-
Franchise tax	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-
Total taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-taxes:				
Interest and investment income	-	-	264	264
Charges for current services	-	-	134	134
Intergovernmental	602,643	616,555	638,568	22,013
Rentals	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	<u>21,000</u>	<u>32,000</u>	<u>13,900</u>	<u>(18,100)</u>
Total non-taxes	<u>623,643</u>	<u>648,555</u>	<u>652,866</u>	<u>4,311</u>
Total revenues	<u>623,643</u>	<u>648,555</u>	<u>652,866</u>	<u>4,311</u>
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	617,066	652,743	641,043	11,700
Lower education	-	-	-	-
Higher education	-	-	-	-
Other education	-	-	-	-
Culture and recreation	-	-	-	-
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	-	-	-	-
Airports	-	-	-	-
Water transportation and terminals	-	-	-	-
Housing	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>617,066</u>	<u>652,743</u>	<u>641,043</u>	<u>11,700</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 6,577</u>	<u>\$ (4,188)</u>	<u>\$ 11,823</u>	<u>\$ 16,011</u>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## PROPRIETARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2007 (Amounts in thousands)

ASSETS	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
CURRENT ASSETS:					
Cash and cash equivalents (Note 3)	\$ 528,557	\$ 134,228	\$ 552,313	\$ 228,984	\$ 1,444,082
Restricted assets — cash and short-term investments (Notes 3 and 6)	199,417	142,627	-	-	342,044
Receivables:					
Taxes	-	-	32,203	-	32,203
Accounts and accrued interest (net of allowance for doubtful accounts of \$6,669)	17,037	11,622	-	3,274	31,933
Promissory note receivable (net of allowance for doubtful accounts of \$7,808) (Note 10)	372	9	-	19,325	19,706
Federal government	1,897	-	-	-	1,897
Restricted assets — passenger facility charges	3,300	-	-	-	3,300
Other	442	160	-	1,364	1,966
Premium receivable	-	-	-	4,717	4,717
Due from Special Revenue Fund	-	-	-	393	393
Restricted assets — investments — repurchase agreements and certificates of deposit (Notes 3 and 6)	75,252	-	-	-	75,252
Inventory of materials and supplies	245	236	-	-	481
Prepaid expenses and other assets	-	24	-	9,325	9,349
Total current assets	<u>826,519</u>	<u>288,906</u>	<u>584,516</u>	<u>267,382</u>	<u>1,967,323</u>
NONCURRENT ASSETS:					
Capital assets (Notes 4, 6, 10, and 14):					
Land and land improvements	334,920	240,271	-	-	575,191
Construction in progress	168,923	36,300	-	-	205,223
Buildings and improvements	2,136,487	512,885	-	-	2,649,372
Equipment	192,691	47,061	-	3,318	243,070
	2,833,021	836,517	-	3,318	3,672,856
Less accumulated depreciation	<u>(1,347,246)</u>	<u>(177,474)</u>	<u>-</u>	<u>(2,877)</u>	<u>(1,527,597)</u>
Net capital assets	1,485,775	659,043	-	441	2,145,259
Bond issue costs — net	3,347	2,905	-	-	6,252
Promissory note receivable (Note 10)	2,967	-	-	210,620	213,587
Restricted assets — net direct financing leases (Note 10)	<u>37,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,142</u>
Total noncurrent assets	<u>1,529,231</u>	<u>661,948</u>	<u>-</u>	<u>211,061</u>	<u>2,402,240</u>
TOTAL	<u>\$ 2,355,750</u>	<u>\$ 950,854</u>	<u>\$ 584,516</u>	<u>\$ 478,443</u>	<u>\$ 4,369,563</u>

(Continued)

# STATE OF HAWAII

## PROPRIETARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2007 (Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Fund</u>	<u>Total Proprietary Funds</u>
<b>LIABILITIES</b>					
CURRENT LIABILITIES:					
Vouchers and contracts payable	\$ 30,432	\$ 7,605	\$ 1,497	\$ 398	\$ 39,932
Payable from restricted assets — contracts payable, accrued interest, and other	26,821	17,756	-	-	44,577
Other accrued liabilities	4,621	-	-	80	4,701
Due to Capital Projects Fund (Note 8)	-	37,047	-	-	37,047
Prepaid airport use charge fund	1,534	-	-	-	1,534
Deferred revenue	3,611	-	-	-	3,611
General obligation bonds payable, current portion (Notes 5 and 7)	9	-	-	-	9
Reserve for losses and loss adjustment expenses	1,184	102	-	-	1,286
Accrued vacation, current portion (Note 7)	2,577	562	-	32	3,171
Payable from restricted assets — revenue bonds payable (Notes 6, 7, and 14)	33,290	11,688	-	-	44,978
Premiums payable	-	-	-	44,880	44,880
	<u>104,079</u>	<u>74,760</u>	<u>1,497</u>	<u>45,390</u>	<u>225,726</u>
Total current liabilities					
NONCURRENT LIABILITIES:					
General obligation bonds payable (Notes 5 and 7)	28	-	-	-	28
Accrued vacation (Note 7)	5,018	1,586	-	260	6,864
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding) (Notes 6, 7, and 14)	643,481	250,890	-	-	894,371
Reserve for losses and loss adjustment costs (Note 7)	3,016	356	-	-	3,372
Other	953	-	-	-	953
	<u>652,496</u>	<u>252,832</u>	<u>-</u>	<u>260</u>	<u>905,588</u>
Total long-term liabilities					
TOTAL LIABILITIES	<u>756,575</u>	<u>327,592</u>	<u>1,497</u>	<u>45,650</u>	<u>1,131,314</u>
<b>NET ASSETS</b>					
INVESTED IN CAPITAL ASSETS — Net of related debt	881,703	396,464	-	441	1,278,608
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	237,470	10,897	-	406,688	655,055
UNRESTRICTED	<u>480,002</u>	<u>215,901</u>	<u>583,019</u>	<u>25,664</u>	<u>1,304,586</u>
TOTAL NET ASSETS	<u>\$ 1,599,175</u>	<u>\$ 623,262</u>	<u>\$ 583,019</u>	<u>\$ 432,793</u>	<u>\$ 3,238,249</u>

See accompanying notes to basic financial statements.

(Concluded)

# STATE OF HAWAII

## PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
OPERATING REVENUES (Note 10):					
Concession fees	\$ 120,690	\$ -	\$ -	\$ -	\$ 120,690
Unemployment compensation tax	-	-	138,070	-	138,070
Aviation fuel tax	2,169	-	-	-	2,169
Airport use charges	38,049	-	-	-	38,049
Rentals	67,751	25,529	-	-	93,280
Services and others	618	58,076	-	-	58,694
Administrative fees	-	-	-	4,347	4,347
Other	4,157	2,058	-	3,640	9,855
	<u>233,434</u>	<u>85,663</u>	<u>138,070</u>	<u>7,987</u>	<u>465,154</u>
OPERATING EXPENSES:					
Personnel services	107,349	13,003	-	759	121,111
Depreciation (Note 4)	82,631	14,817	-	285	97,733
Repairs and maintenance	50,881	8,471	-	353	59,705
Airports operations	36,251	-	-	-	36,251
Harbors operations	-	16,440	-	-	16,440
Fireboat operations	-	1,710	-	-	1,710
General administration	15,489	6,556	-	3,270	25,315
Unemployment compensation	-	-	112,411	-	112,411
Other	245	-	-	635	880
	<u>292,846</u>	<u>60,997</u>	<u>112,411</u>	<u>5,302</u>	<u>471,556</u>
Operating income (loss)	<u>(59,412)</u>	<u>24,666</u>	<u>25,659</u>	<u>2,685</u>	<u>(6,402)</u>
NONOPERATING REVENUES (EXPENSES):					
Interest income	35,840	11,751	25,200	9,255	82,046
Interest expense	(36,614)	(13,002)	-	-	(49,616)
Federal grants	19,983	-	-	-	19,983
Loss on disposal of capital assets	(44)	(2,832)	-	-	(2,876)
Passenger facility charges	23,410	-	-	-	23,410
Other	(438)	-	-	431	(7)
	<u>42,137</u>	<u>(4,083)</u>	<u>25,200</u>	<u>9,686</u>	<u>72,940</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(17,275)	20,583	50,859	12,371	66,538
CAPITAL CONTRIBUTIONS	51,380	4,372	-	72,862	128,614
CHANGE IN NET ASSETS	34,105	24,955	50,859	85,233	195,152
NET ASSETS — Beginning of year — as previously reported	1,565,070	598,307	475,803	910	2,640,090
ADJUSTMENTS (Note 15)	-	-	56,357	346,650	403,007
NET ASSETS — Beginning of year — as restated	1,565,070	598,307	532,160	347,560	3,043,097
NET ASSETS — End of year	<u>\$1,599,175</u>	<u>\$623,262</u>	<u>\$583,019</u>	<u>\$432,793</u>	<u>\$3,238,249</u>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$230,466	\$85,287	\$ -	\$ -	\$ 315,753
Cash received from taxes	-	-	147,267	-	147,267
Cash received from employees	-	-	-	290,183	290,183
Cash paid to suppliers	(147,711)	(28,726)	-	(1,691)	(178,128)
Cash paid to employees	(60,559)	(12,940)	-	(2,188)	(75,687)
Cash paid for unemployment compensation	-	-	(112,805)	-	(112,805)
Cash paid for premiums	-	-	-	(271,781)	(271,781)
Cash paid for premium deposit for self-funded plans	-	-	-	(9,308)	(9,308)
Reserves returned by insurance carriers	-	-	-	148	148
Interest income from loans	-	-	-	3,618	3,618
Administrative loan fees	-	-	-	2,157	2,157
Principal repayments on loans	-	-	-	14,277	14,277
Disbursement of loan proceeds	-	-	-	(88,579)	(88,579)
Other cash receipts	-	-	-	(2)	(2)
Net cash provided by (used in) operating activities	<u>22,196</u>	<u>43,621</u>	<u>34,462</u>	<u>(63,166)</u>	<u>37,113</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Net advances to other funds	-	-	-	(28)	(28)
State capital contributions	-	-	-	3,714	3,714
Proceeds from federal operating grants	<u>21,439</u>	<u>-</u>	<u>-</u>	<u>70,714</u>	<u>92,153</u>
Net cash provided by noncapital financing activities	<u>21,439</u>	<u>-</u>	<u>-</u>	<u>74,400</u>	<u>95,839</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Cash received from bond issuance	-	97,427	-	-	97,427
Proceeds from debt payable to Department of Budget and Finance	-	28,530	-	-	28,530
Acquisition and construction of capital assets	(85,606)	(57,992)	-	(83)	(143,681)
Repayment of general obligation and revenue bonds principal	(30,574)	(11,395)	-	-	(41,969)
Interest paid on bonds	(38,714)	(11,972)	-	-	(50,686)
Proceeds from passenger facility charges program	23,288	-	-	-	23,288
Payments from passenger facility charges program	(14,109)	-	-	-	(14,109)
Proceeds from federal, state, and capital grants	<u>50,037</u>	<u>306</u>	<u>-</u>	<u>-</u>	<u>50,343</u>
Net cash provided by (used in) capital and related financing activities	<u>(95,678)</u>	<u>44,904</u>	<u>-</u>	<u>(83)</u>	<u>(50,857)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	101,181	-	-	(28)	101,153
Proceeds from sales and maturities of investments	(101,181)	-	-	-	(101,181)
Interest from investments	<u>32,700</u>	<u>9,303</u>	<u>30,848</u>	<u>8,812</u>	<u>81,663</u>
Net cash provided by investing activities	<u>32,700</u>	<u>9,303</u>	<u>30,848</u>	<u>8,784</u>	<u>81,635</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,343)	97,828	65,310	19,935	163,730
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	<u>747,317</u>	<u>179,027</u>	<u>487,003</u>	<u>209,049</u>	<u>1,622,396</u>
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	<u>727,974</u>	<u>276,855</u>	<u>552,313</u>	<u>228,984</u>	<u>1,786,126</u>

(Continued)

# STATE OF HAWAII

## PROPRIETARY FUNDS

### STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(Amounts in thousands)

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO					
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	\$ (59,412)	\$ 24,666	\$ 25,659	\$ 2,685	\$ (6,402)
Adjustments to reconcile operating income (loss)					
to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	676	-	-	676
Depreciation	82,631	14,817	-	285	97,733
Overpayment of airport use charge to be transferred					
to the prepaid airport use charge fund	(847)	-	-	-	(847)
Other nonoperating income	-	-	-	1	1
Reserves provided by operating activities	-	-	-	329	329
Premium reserves held by insurance companies	-	-	-	13	13
Decrease (increase) in assets:					
Receivables	(1,609)	(549)	9,197	(74,651)	(67,612)
Inventory of materials and supplies	10	(5)	-	-	5
Deposits	-	-	-	(9,308)	(9,308)
Prepaid expenses	-	-	-	16	16
Increase (decrease) in liabilities:					
Vouchers and contracts payable	962	3,782	(394)	118	4,468
Other accrued liabilities	943	234	-	17,369	18,546
Prepaid airport use charge fund	(1,348)	-	-	-	(1,348)
Deferred revenue	866	-	-	-	866
Accrued interest on loans receivable	-	-	-	(23)	(23)
	<u>\$ 22,196</u>	<u>\$ 43,621</u>	<u>\$ 34,462</u>	<u>\$ (63,166)</u>	<u>\$ 37,113</u>
Net cash provided by (used in) operating activities					
NONCASH INVESTING, CAPITAL, AND FINANCING					
ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond					
premium, and deferred loss on refunding	799	163	-	-	962
Principal payments relating to special facility revenue bonds	1,000	-	-	-	1,000
Interest payments relating to special facility revenue bonds	2,425	-	-	-	2,425
Acquisition of capital assets from the Hawaii Community					
Development Authority	-	4,437	-	-	4,437

See accompanying notes to basic financial statements.

(Concluded)

# STATE OF HAWAII

## FIDUCIARY FUNDS STATEMENT OF FIDUCIARY NET ASSETS JUNE 30, 2007 (Amounts in thousands)

	<b>Employer - Union Trust Fund</b>	<b>Agency Funds</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and cash equivalents (Note 3)	\$ 39,097	\$ 104,864	\$ 143,961
Receivables:			
Accrued interest	384	9,762	10,146
Premium - trust	8,235	-	8,235
Medicare reimbursements - trust	29	-	29
Total receivables	<u>8,648</u>	<u>9,762</u>	<u>18,410</u>
Due from individuals, businesses, and counties	<u>-</u>	<u>30,286</u>	<u>30,286</u>
Investments (Note 3):			
Certificates of deposit	-	5,861	5,861
U.S. government securities	-	79,123	79,123
Repurchase agreements	-	12,699	12,699
Total investments	<u>-</u>	<u>97,683</u>	<u>97,683</u>
Deposits and other assets - trust	10,106	-	10,106
Capital assets - trust	<u>126</u>	<u>-</u>	<u>126</u>
Total assets	<u>57,977</u>	<u>242,595</u>	<u>300,572</u>
<b>LIABILITIES AND NET ASSETS:</b>			
Vouchers payable	158	53,329	53,487
Due to individuals, businesses, and counties	-	189,266	189,266
Retrospective premium payable - trust	16,882	-	16,882
Premium payable - trust	14,629	-	14,629
Compensated absences, accrued wages, and employee benefits payable - trust	<u>109</u>	<u>-</u>	<u>109</u>
Total liabilities	<u>31,778</u>	<u>242,595</u>	<u>274,373</u>
Net assets — held in trust	<u>\$ 26,199</u>	<u>\$ -</u>	<u>\$ 26,199</u>

See accompanying notes to basic financial statements.

# STATE OF HAWAII

## FIDUCIARY FUNDS STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (Amounts in thousands)

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	<b>Employer - Union Trust Fund</b>
ADDITIONS:	
Interest and investment income	\$ 1,638
Contributions - employer and plan member	242,980
Increase in premium reserves	<u>341</u>
Total additions	<u>244,959</u>
DEDUCTIONS:	
Benefits	241,361
Administrative expenses	<u>2,339</u>
Total deductions	<u>243,700</u>
CHANGE IN NET ASSETS	<u>1,259</u>
NET ASSETS — Beginning of year — as previously reported	181,771
ADJUSTMENTS (Note 15)	(181,771)
ADOPTION OF GASB 43 (Note 11)	<u>24,940</u>
NET ASSETS — Beginning of year — as restated	<u>24,940</u>
NET ASSETS — End of year	<u>\$ 26,199</u>

See accompanying notes to basic financial statements.



# STATE OF HAWAII

## COMPONENT UNITS STATEMENT OF NET ASSETS JUNE 30, 2007 (Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	\$ 30,964	\$ 180,091	\$ 41,749	\$ 26,324
RECEIVABLES:				
Accounts and accrued interest (net of allowance for doubtful accounts of \$81,875)	103,705	5,193	1,315	66,922
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	43,632	78,260	426	-
Federal government	-	-	8,734	2,244
Other	-	5,839	682	-
DUE FROM PRIMARY GOVERNMENT (Note 8)	234,884	22,428	-	-
INVESTMENTS	571,698	6,388	-	-
INVENTORIES:				
Developments in progress and dwelling units	-	20,849	-	-
Materials and supplies	9,736	-	745	12,814
NET INVESTMENT IN FINANCING LEASE	-	15,579	-	-
PREPAID EXPENSES AND OTHER ASSETS	9,001	152	121	3,557
	<u>1,003,620</u>	<u>334,779</u>	<u>53,772</u>	<u>111,861</u>
RESTRICTED ASSETS:				
Cash and cash equivalents	6,851	318,715	-	4,309
Investments (Note 3)	-	40	-	-
Deposits, funded reserves, and other	-	576	8,027	-
Total restricted assets	<u>6,851</u>	<u>319,331</u>	<u>8,027</u>	<u>4,309</u>
CAPITAL ASSETS:				
Land and land improvements	87,643	20,274	25,342	6,920
Infrastructure	55,327	-	-	-
Construction in progress	146,623	837	38,318	42,388
Buildings, improvements, and equipment	1,540,306	144,375	528,668	409,541
Less accumulated depreciation	<u>(755,869)</u>	<u>(78,188)</u>	<u>(283,499)</u>	<u>(205,692)</u>
Total capital assets — net	1,074,030	87,298	308,829	253,157
OTHER ASSETS	<u>22,333</u>	<u>2,156</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 2,106,834</u>	<u>\$ 743,564</u>	<u>\$ 370,628</u>	<u>\$ 369,327</u>

<u>Hawaii Tourism Authority</u>	<u>Hawaii Community Development Authority</u>	<u>Hawaii Hurricane Relief Fund</u>	<u>Total Component Units</u>
\$ 17,732	\$ 52,001	\$ 4,498	\$ 353,359
-	403	2,359	179,897
-	-	-	122,318
-	-	-	10,978
10,452	5,314	-	22,287
-	-	-	257,312
17,800	-	182,846	778,732
-	-	-	20,849
-	-	-	23,295
-	-	-	15,579
-	416	-	13,247
<u>45,984</u>	<u>58,134</u>	<u>189,703</u>	<u>1,797,853</u>
2,625	-	-	332,500
-	-	-	40
-	-	-	8,603
<u>2,625</u>	<u>-</u>	<u>-</u>	<u>341,143</u>
131,497	136,301	-	407,977
-	139,868	-	195,195
-	26,826	-	254,992
211,053	17,791	-	2,851,734
<u>(75,595)</u>	<u>(70,919)</u>	<u>-</u>	<u>(1,469,762)</u>
266,955	249,867	-	2,240,136
-	-	-	24,489
<u>\$ 315,564</u>	<u>\$ 308,001</u>	<u>\$ 189,703</u>	<u>\$ 4,403,621</u>

(Continued)

# STATE OF HAWAII

## COMPONENT UNITS STATEMENT OF NET ASSETS JUNE 30, 2007 (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>				
CURRENT LIABILITIES:				
Vouchers and contracts payable	\$ 48,130	\$ 2,687	\$ 14,513	\$ 59,068
Other accrued liabilities	115,296	16,232	4,735	-
Due to Primary Government (Note 8)	6,304	-	-	24,000
Due to federal government	-	-	18	-
Estimated future costs of land sold	-	29,880	-	-
General obligation bonds payable (Note 5)	1,717	-	-	-
Notes, mortgages, and installment contracts payable	26,501	75	-	839
Accrued vacation and retirement benefits payable	-	-	-	10,685
Revenue bonds payable (Note 14)	-	8,968	-	-
Reserve for losses and loss adjustment costs	-	-	-	19,020
Capital lease obligations	-	-	-	7,180
Deferred commitment fees	-	473	-	-
Other liabilities	-	4,702	2,382	1,982
Total current liabilities	<u>197,948</u>	<u>63,017</u>	<u>21,648</u>	<u>122,774</u>
NONCURRENT LIABILITIES:				
General obligation bonds payable (Note 5)	2,916	-	-	-
Notes, mortgages, and installment contracts payable	-	5,851	576	10,774
Accrued vacation and retirement benefits payable	34,995	-	-	20,579
Revenue bonds payable (Note 14)	263,045	355,674	-	-
Reserve for losses and loss adjustment costs	7,369	-	-	-
Premium on bonds payable	1,913	-	-	-
Capital lease obligations	13,820	-	-	35,091
Other liabilities	6,557	4,625	-	20,825
Total noncurrent liabilities	<u>330,615</u>	<u>366,150</u>	<u>576</u>	<u>87,269</u>
TOTAL	<u>528,563</u>	<u>429,167</u>	<u>22,224</u>	<u>210,043</u>
<b>NET ASSETS</b>				
INVESTED IN CAPITAL ASSETS — Net of related debt	890,877	(18,821)	308,253	197,794
RESTRICTED	533,133	319,291	8,001	2,862
UNRESTRICTED (DEFICIT)	<u>154,261</u>	<u>13,927</u>	<u>32,150</u>	<u>(41,372)</u>
TOTAL	<u>\$ 1,578,271</u>	<u>\$ 314,397</u>	<u>\$ 348,404</u>	<u>\$ 159,284</u>

See accompanying notes to basic financial statements.

<b>Hawaii Tourism Authority</b>	<b>Hawaii Community Development Authority</b>	<b>Hawaii Hurricane Relief Fund</b>	<b>Total Component Units</b>
\$ 1,456	\$ 944	\$ -	\$ 126,798
119	91	-	136,473
-	-	3,526	33,830
-	-	-	18
-	-	-	29,880
9,265	-	-	10,982
-	-	-	27,415
100	-	-	10,785
-	-	-	8,968
-	-	-	19,020
-	-	-	7,180
-	-	-	473
<u>11,105</u>	<u>544</u>	<u>4,500</u>	<u>25,215</u>
<u>22,045</u>	<u>1,579</u>	<u>8,026</u>	<u>437,037</u>
276,900	-	-	279,816
-	-	-	17,201
252	-	-	55,826
-	-	-	618,719
-	-	-	7,369
-	-	-	1,913
-	-	-	48,911
-	31,286	-	63,293
<u>277,152</u>	<u>31,286</u>	<u>-</u>	<u>1,093,048</u>
<u>299,197</u>	<u>32,865</u>	<u>8,026</u>	<u>1,530,085</u>
(19,211)	249,867	-	1,608,759
35,578	51,147	-	950,012
-	(25,878)	181,677	314,765
<u>\$ 16,367</u>	<u>\$ 275,136</u>	<u>\$ 181,677</u>	<u>\$ 2,873,536</u>

(Concluded)

# STATE OF HAWAII

## COMPONENT UNITS

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(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>
EXPENSES	\$ 1,184,094	\$ 54,250	\$ 112,003	\$ 438,746
PROGRAM REVENUES:				
Charges for services	249,585	60,160	22,993	367,402
Operating grants and contributions	373,237	23,107	49,164	369
Capital grants and contributions	<u>-</u>	<u>-</u>	<u>15,082</u>	<u>38,715</u>
Total program revenues	<u>622,822</u>	<u>83,267</u>	<u>87,239</u>	<u>406,486</u>
Net program revenues (expenses)	<u>(561,272)</u>	<u>29,017</u>	<u>(24,764)</u>	<u>(32,260)</u>
GENERAL REVENUES (EXPENSES):				
Interest and investment income	46,549	-	-	878
Payments from (to) the State	654,725	2,410	36,709	48,740
Other	<u>72,894</u>	<u>-</u>	<u>-</u>	<u>(834)</u>
Net general revenues	<u>774,168</u>	<u>2,410</u>	<u>36,709</u>	<u>48,784</u>
Change in net assets	<u>212,896</u>	<u>31,427</u>	<u>11,945</u>	<u>16,524</u>
NET ASSETS — Beginning of year — as previously reported	1,365,375	617,234	-	142,760
ADJUSTMENTS (Note 15)	<u>-</u>	<u>(334,264)</u>	<u>336,459</u>	<u>-</u>
NET ASSETS — Beginning of year — as restated	<u>1,365,375</u>	<u>282,970</u>	<u>336,459</u>	<u>142,760</u>
NET ASSETS — End of year	<u>\$ 1,578,271</u>	<u>\$ 314,397</u>	<u>\$ 348,404</u>	<u>\$ 159,284</u>

See accompanying notes to 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>
<u>\$ 103,068</u>	<u>\$ 10,508</u>	<u>\$ 203</u>	<u>\$ 1,902,872</u>
10,569	7,641	-	718,350
-	-	-	445,877
<u>-</u>	<u>-</u>	<u>-</u>	<u>53,797</u>
<u>10,569</u>	<u>7,641</u>	<u>-</u>	<u>1,218,024</u>
<u>(92,499)</u>	<u>(2,867)</u>	<u>(203)</u>	<u>(684,848)</u>
2,045	1,540	9,723	60,735
107,112	-	(8,026)	841,670
<u>-</u>	<u>1,991</u>	<u>-</u>	<u>74,051</u>
<u>109,157</u>	<u>3,531</u>	<u>1,697</u>	<u>976,456</u>
<u>16,658</u>	<u>664</u>	<u>1,494</u>	<u>291,608</u>
-	-	180,183	2,305,552
<u>(291)</u>	<u>274,472</u>	<u>-</u>	<u>276,376</u>
<u>(291)</u>	<u>274,472</u>	<u>180,183</u>	<u>2,581,928</u>
<u>\$ 16,367</u>	<u>\$ 275,136</u>	<u>\$ 181,677</u>	<u>\$ 2,873,536</u>

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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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 more significant of the State's accounting policies are described below.

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

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

Executive:

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

Judicial

Legislative

*Discretely Presented Component Units* — The Component Units column in the basic financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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bodies of these discretely presented Component Units are appointed by the Governor of the State (Governor). The discretely presented Component Units are as follows:

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

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

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

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



# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities, and fund balances between the Department of Health and the HHSC pursuant to Act 262 has not been finalized as of June 30, 2007. Accordingly, the assets, liabilities, and net assets of the HHSC reflected in the accompanying basic financial statements may be significantly different from those included in the final settlement.

The HHSC is comprised of the following state hospitals:

Hale Ho'ola Hamakua	Lanai Community Hospital
Hilo Medical Center	Leahi Hospital
Ka'u Hospital	Samuel Mahelona Memorial Hospital
Kauai Veterans Memorial Hospital	Maluhia
Kohala Hospital	Maui Memorial Medical Center
Kona Community Hospital	Yukio Okutsu Veterans Care Home
Kula Hospital	Kahuku Hospital (effective July 1, 2007)

**Hawaii Tourism Authority** — The Hawaii Tourism Authority (HTA) was established on January 1, 1999 by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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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.

The nonmajor Governmental Funds are comprised of the following:

- Special Revenue Funds — These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.
- Debt Service Fund — This fund accounts for the financial resources obtained and used for the payment of principal and interest on general and revenue long-term bond obligations.

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

### *Fiduciary Fund Types* —

- EUTF — The EUTF accounts for retiree healthcare benefits, which includes medical, dental, and life insurance coverage.
- Agency Funds — Agency Funds account for various taxes, deposits, and property held by the State pending distribution to other governments and individuals.

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

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

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

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

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



# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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

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

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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

**Risk Management** — The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first \$1 million per occurrence of property losses, the first \$3 million with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$100 million, except for flood and earthquake, which individually is a \$40 million aggregate loss, terrorism which is \$50 million per occurrence and boiler and machinery which is \$40 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is \$10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of \$20 million per

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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occurrence and in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

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

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

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

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

### **New Accounting Pronouncements**

*GASB Statement No. 48* — The GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB 48), effective December 15, 2006. This statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. GASB 48 did not have an impact on the State's basic financial statements for the fiscal year ended June 30, 2007.

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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*GASB Statement No. 50* — The GASB issued Statement No. 50, *Pension Disclosures* (GASB 50), effective June 15, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The State is currently evaluating the impact that GASB 50 will have on its financial statements.

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

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

## 2. BUDGETING AND BUDGETARY CONTROL

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the general fund statement 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 2005 (Act 178, SLH of 2005), as amended by the Supplemental Appropriations Act of 2006, 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 2005 — 2007 biennial budget.

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

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

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however,

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2007, there were no expenditures in excess of appropriations in the individual funds.

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

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

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2007, follows (amounts expressed in thousands):

	<u>General Fund</u>
Excess of revenues and other sources over expenditures — actual (budgetary basis)	\$ 91,010
Reserve for encumbrances at fiscal year-end *	279,264
Expenditures for liquidation of prior fiscal year encumbrances	(268,128)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(43,916)
Tax refunds payable	1,131
Accrued liabilities	(88,324)
Accrued revenues	<u>61,604</u>
Net change in fund balance — GAAP basis	<u>\$ 32,641</u>

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

### 3. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director 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.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2007, was \$2,006,414,000 and \$457,738,000, respectively, and for the Primary Government and \$143,961,000 for the Fiduciary Funds.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to \$2,112,011,000 at June 30, 2007. Of that amount, \$1,559,699,000 represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. The remaining bank balances of \$552,312,000 represents deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

The following tables present the State's investments and maturities at June 30, 2007 (amounts expressed in thousands).

	Fair Value	Maturity (in years)		
		Less than 1	1-5	>5
Investments — Primary Government:				
Certificates of deposit	\$ 123,372	\$ 68,455	\$ 54,917	\$ -
U.S. government securities	1,466,930	3,427	852,363	611,140
Repurchase agreements	374,218	263,799	110,419	-
	<u>\$ 1,964,520</u>	<u>\$ 335,681</u>	<u>\$ 1,017,699</u>	<u>\$ 611,140</u>
Investments — Fiduciary Funds:				
Certificates of deposit	\$ 5,861	\$ 5,861	\$ -	\$ -
U.S. government securities	79,123	316	78,728	79
Repurchase agreements	12,699	12,636	63	-
	<u>\$ 97,683</u>	<u>\$ 18,813</u>	<u>\$ 78,791</u>	<u>\$ 79</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 investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

The State's investments consist of auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 - 28 days. These securities were recorded at their fair value at June 30, 2007, which equaled cost. Subsequent to year-end and through April 2008, a number of auctions have failed and companies without the ability to hold such securities until maturity have taken significant losses. There is no assurance that the auctions on the remaining auction rate securities in the State's investment portfolio will succeed. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. The State believes it has the ability and intent to hold the securities for the foreseeable future. However, the State's ability to liquidate and fully recover the carrying value of its auction rate securities in the near term may be limited. The State may be required to wait until market stability is restored for these instruments or until the final maturity



# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

of the underlying loans (up to 38 years) to realize its carrying value. These securities are classified as noncurrent in the accompanying balance sheets as of June 30, 2007.

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

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

#### 4. CAPITAL ASSETS

For the fiscal year ended June 30, 2007, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities					
	Balance, July 1, 2006 (as previously reported)	Adjustments (Note 15)	Balance, July 1, 2006 (restated)	Additions	Deletions	Balance, June 30, 2007
Capital assets not being depreciated:						
Land and land improvements	\$ 2,308,543	\$ (313,371)	\$ 1,995,172	\$ 23,245	\$ (4,041)	\$ 2,014,376
Construction in progress	<u>602,823</u>	<u>(54,173)</u>	<u>548,650</u>	<u>439,336</u>	<u>(254,659)</u>	<u>733,327</u>
Total capital assets not being depreciated	<u>2,911,366</u>	<u>(367,544)</u>	<u>2,543,822</u>	<u>462,581</u>	<u>(258,700)</u>	<u>2,747,703</u>
Capital assets being depreciated:						
Infrastructure	7,926,740	(93,354)	7,833,386	90,292	-	7,923,678
Buildings and improvements	2,972,294	(124,116)	2,848,178	114,503	(3,763)	2,958,918
Equipment	<u>252,639</u>	<u>34,390</u>	<u>287,029</u>	<u>32,383</u>	<u>(13,000)</u>	<u>306,412</u>
Total capital assets being depreciated	<u>11,151,673</u>	<u>(183,080)</u>	<u>10,968,593</u>	<u>237,178</u>	<u>(16,763)</u>	<u>11,189,008</u>
Less accumulated depreciation:						
Infrastructure	(3,403,422)	(133,674)	(3,537,096)	(230,165)	-	(3,767,261)
Buildings and improvements	(1,490,740)	20,936	(1,469,804)	(86,279)	-	(1,556,083)
Equipment	<u>(441,821)</u>	<u>222,767</u>	<u>(219,054)</u>	<u>(20,566)</u>	<u>8,774</u>	<u>(230,846)</u>
Total accumulated depreciation	<u>(5,335,983)</u>	<u>110,029</u>	<u>(5,225,954)</u>	<u>(337,010)</u>	<u>8,774</u>	<u>(5,554,190)</u>
Total capital assets	<u>\$ 8,727,056</u>	<u>\$ (440,595)</u>	<u>\$ 8,286,461</u>	<u>\$ 362,749</u>	<u>\$ (266,689)</u>	<u>\$ 8,382,521</u>

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<b>Business-Type Activities</b>					
	<b>Balance, July 1, 2006 (as previously reported)</b>	<b>Adjustments (Note 15)</b>	<b>Balance, July 1, 2006 (as restated)</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2007</b>
Capital assets not being depreciated:						
Land and land improvements	\$ 571,276	\$ -	\$ 571,276	\$ 3,915	\$ -	\$ 575,191
Construction in progress	<u>182,122</u>	<u>-</u>	<u>182,122</u>	<u>165,281</u>	<u>(142,180)</u>	<u>205,223</u>
Total capital assets not being depreciated	<u>753,398</u>	<u>-</u>	<u>753,398</u>	<u>169,196</u>	<u>(142,180)</u>	<u>780,414</u>
Capital assets being depreciated:						
Buildings and improvements	2,560,923	-	2,560,923	93,230	(4,781)	2,649,372
Equipment	<u>189,591</u>	<u>931</u>	<u>190,522</u>	<u>58,854</u>	<u>(6,306)</u>	<u>243,070</u>
Total capital assets being depreciated	<u>2,750,514</u>	<u>931</u>	<u>2,751,445</u>	<u>152,084</u>	<u>(11,087)</u>	<u>2,892,442</u>
Less accumulated depreciation:						
Buildings and improvements	(1,272,569)	-	(1,272,569)	(90,539)	2,026	(1,361,082)
Equipment	<u>(162,723)</u>	<u>(628)</u>	<u>(163,351)</u>	<u>(7,194)</u>	<u>4,030</u>	<u>(166,515)</u>
Total accumulated depreciation	<u>(1,435,292)</u>	<u>(628)</u>	<u>(1,435,920)</u>	<u>(97,733)</u>	<u>6,056</u>	<u>(1,527,597)</u>
Total capital assets	<u>\$ 2,068,620</u>	<u>\$ 303</u>	<u>\$ 2,068,923</u>	<u>\$ 223,547</u>	<u>\$ (147,211)</u>	<u>\$ 2,145,259</u>

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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Depreciation expense for the fiscal year ended June 30, 2007, was charged to functions/programs of the Primary Government as follows:

	<u>2007</u>
Governmental activities:	
Highways	\$ 231,561,236
Lower education	53,005,165
General government	15,426,706
Public safety	10,816,913
Conservation of natural resources	9,293,250
Urban redevelopment and housing	4,892,189
Health	5,291,818
Welfare	3,259,699
Economic development and assistance	2,457,952
Other education	<u>1,005,502</u>
Total depreciation expense — governmental activities	<u>\$ 337,010,430</u>
Business-type activities:	
Airports	\$ 82,631,333
Harbors	14,816,871
EUTF	187,499
DWTRF	88,307
WPCRF	<u>9,575</u>
Total depreciation expense — business-type activities	<u>\$ 97,733,585</u>

### 5. GENERAL OBLIGATION BONDS PAYABLE

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

All issues, except Series BL, issued December 6, 1988; certain maturities of Series BQ, issued November 28, 1989; Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA and CB, issued January 1, 1993; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; Series CS, issued April 1, 1998; and Series CY, issued February 15, 2002, contain call provisions (call prices range from \$100 to \$103). Stated interest rates range from 4% to 6.250%.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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In fiscal 2007, the State issued \$350,000,000 of general obligation bonds, Series DJ, dated March 28, 2007, with interest rates ranging from 3.625% to 5.000%. Bonds maturing after April 1, 2017, will be subject to redemption at the option of the State at any time on and after April 1, 2017, at a price equal to the principal amount thereof plus accrued interest to the redemption date. The bonds were issued for the purpose of financing the Hawaiian Home Lands Trust settlement and public improvement projects. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

At June 30, 2007, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	\$ 3,461,230
Noncallable	<u>909,319</u>
Total general obligation bonds outstanding	<u>4,370,549</u>
Less amount recorded as a liability of:	
Proprietary Funds (business-type activities)	37
Component Unit — UH	4,633
Component Unit — HTA	<u>286,165</u>
	<u>290,835</u>
Amount recorded in the governmental activities of the Primary Government	<u>\$ 4,079,714</u>

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

A summary of general obligation bonds outstanding by series as of June 30, 2007, 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</u>	<u>Amount Outstanding</u>
X	August 1, 1972	4.000%	August 1, 2006–2007	\$ 5,125	\$ 315
BL	December 6, 1988	7.681%	December 1, 2006–2008	65,001	8,126
BQ	November 28, 1989	7.100%–7.150%	December 1, 2006–2009	80,005	13,333
BW	March 1, 1992	6.250%–6.400%	March 1, 2007–2012	100,000	16,570
BZ	October 1, 1992	5.800%–6.000%	October 1, 2006–2012	200,000	75,000
CA	January 1, 1993	5.500%–8.000%	January 1, 2007–2013	90,000	30,000
CB	January 1, 1993	5.500%–5.750%	January 1, 2007–2008	107,845	8,295
CC	February 1, 1993	5.125%	February 1, 2007–2009	334,860	47,830
CH	November 1, 1993	4.750%–6.000%	November 1, 2006–2013	250,000	97,210
CI	November 1, 1993	4.500%–4.900%	November 1, 2006–2010	316,915	84,500
CL	March 1, 1996	5.100%–6.000%	March 1, 2007–2010	100,000	16,665
CM	December 1, 1996	6.000%–6.500%	December 1, 2006–2016	150,000	83,320
CN	March 1, 1997	6.000%–6.250%	March 1, 2007–2009	350,000	39,700
CO	March 1, 1997	6.000%	September 1, 2006–2010, March 1, 2007–2011	231,755	95,505
CP	October 1, 1997	5.500%–5.500%	October 1, 2006–2017	200,000	71,830
CR	April 1, 1998	5.000%–5.750%	April 1, 2007–2008	300,000	7,955
CS	April 1, 1998	5.000%–5.250%	April 1, 2007–2009	336,620	108,505
CT	September 15, 1999	5.250%–5.625%	September 1, 2006–2012	300,000	48,285
CU	October 15, 2000	4.600%–5.750%	October 1, 2006–2012	150,000	43,915
CV	August 1, 2001	4.800%–5.500%	August 1, 2006–2021	300,000	231,995
CW	August 1, 2001	3.400%–5.500%	August 1, 2006–2015	156,750	129,030
CX	February 15, 2002	3.600%–5.500%	February 1, 2007–2022	250,000	190,795
CY	February 15, 2002	3.600%–5.750%	February 1, 2007–2015	319,290	288,955
CZ	November 26, 2002	2.650%–5.500%	July 1, 2007–2020, 2022	300,000	170,980
DA	September 16, 2003	2.800%–5.250%	September 1, 2008–2023	225,000	217,885
DB	September 16, 2003	2.800%–5.250%	September 1, 2008–2016	188,650	188,650
DD	May 13, 2004	3.500%–5.250%	May 1, 2011–2024	225,000	182,825
DE	November 10, 2004	2.625%–5.000%	October 1, 2009–2024	225,000	225,000
DF	June 15, 2005	3.000%–5.000%	July 1, 2009–2024	225,000	225,000
DG	June 15, 2005	5.000%	July 1, 2009–2017	722,575	722,575
DI	March 23, 2006	3.500%–5.500%	March 1, 2010–2026	350,000	350,000
DJ	March 28, 2007	3.625%–5.000%	April 1, 2007–2027	350,000	<u>350,000</u>
					<u>\$ 4,370,549</u>

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

A summary of the bond premium activities for fiscal year 2007 is as follows (amounts expressed in thousands):

Balance — July 1, 2006	\$ 230,600
Additions — Series DJ	22,600
Current-year amortization	<u>24,118</u>
Balance — June 30, 2007	<u>\$ 229,082</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 312,835	\$ 223,862	\$ 536,697
2009	327,142	210,266	537,408
2010	323,283	179,005	502,288
2011	344,537	149,544	494,081
2012	303,664	133,043	436,707
2013—2017	1,344,109	442,317	1,786,426
2018—2022	738,275	186,993	925,268
2024—2028	<u>385,869</u>	<u>42,740</u>	<u>428,609</u>
	<u>\$4,079,714</u>	<u>\$1,567,770</u>	<u>\$5,647,484</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 9	\$ 1	\$ 10
2009	14	2	16
2010	14	3	17
2011	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 37</u>	<u>\$ 6</u>	<u>\$ 43</u>

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, 2007, \$884,075,000 of bonds outstanding is considered defeased.

The State Constitution limits the amount of general obligation bonds, which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2007, was \$343,353,500.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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At June 30, 2007, general obligation bonds authorized but unissued were approximately \$1,067,188,000.

### 6. REVENUE BONDS PAYABLE

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

On March 15, 2005, Highways issued \$123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates of 5.00% and 5.25% to advance refund \$128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and July 1 through 2021.

On April 15, 2003, Highways issued \$44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with an average interest rate of 4.33% to advance refund \$45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The bonds are payable semiannually on January and July 1 through 2013.

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

On October 31, 2000, Highways issued State of Hawaii Highway Revenue Bonds, Series of 2000, in the principal amount of \$45,360,000. The bonds bear interest at rates ranging from 4.40% to 5.50% and mature in annual installments through July 2010.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of \$94,920,000. Bond proceeds related to this issue amounted to \$97,542,000, of which \$71,921,000 is to be used to finance certain highway improvements and other related projects for the state highways system, and \$25,621,000 was used to refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates ranging from 4.00% to 5.50% and mature in annual installments through July 2018.

On September 1, 1996, Highways issued \$55,000,000 in State of Hawaii Highway Revenue Bonds, Series of 1996. The bonds bear interest at rates ranging from 3.80% to 6.00% and mature in increasing annual installments through July 2009.

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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On January 15, 1999, the Department of Hawaiian Home Lands (DHHL) issued revenue bonds, Refunding Series of 1999, in the principal amount of \$13,370,000. The bonds bear interest at rates ranging from 3.00% to 4.45% and mature in increasing annual installments through 2012. In 2007, the outstanding balance was defeased.

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

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2007, bonds outstanding considered defeased amounted to \$105,570,000.

The following is a summary of Highways' revenue bonds issued and outstanding at June 30, 2007 (amounts expressed in thousands):

<u>Series</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Amount</u>
Highways:				
1996	September 1, 1996	3.80%–6.00%	July 1, 2007–July 1, 2009	\$ 8,500
1998	July 1, 1998	4.00%–5.50%	July 1, 2006–July 1, 2018	31,575
2000	October 31, 2000	4.40%–5.50%	July 1, 2006–July 1, 2010	8,720
2001	October 25, 2001	3.75%–5.375%	July 1, 2006–July 1, 2022	19,580
2003	April 15, 2003	2.50%–5.00%	July 1, 2006–July 1, 2013	33,080
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2006–July 1, 2025	57,940
2005 B	March 15, 2005	5.00%–5.25%	July 1, 2010–July 1, 2021	<u>123,915</u>
				<u>\$283,310</u>



# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 14,885	\$ 13,242	\$ 28,127
2009	15,495	12,597	28,092
2010	16,150	11,880	28,030
2011	16,935	11,156	28,091
2012	17,570	10,445	28,015
2013-2017	101,370	38,823	140,193
2018-2022	78,860	13,390	92,250
2023-2027	<u>22,045</u>	<u>1,773</u>	<u>23,818</u>
	<u>\$ 283,310</u>	<u>\$ 113,306</u>	<u>\$ 396,616</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.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2007 (amounts expressed in thousands):

<u>Series</u>	<u>Interest Rates</u>	<u>Final Maturity Date (July 1)</u>	<u>Original Amount of Issue</u>	<u>Outstanding Amount</u>
2000A, refunding	5.50%-6.00%	2021	\$ 26,415	\$ 26,415
2000B, refunding	5.00%-8.00%	2020	261,465	229,785
2001, refunding	4.00%-5.75%	2021	<u>423,255</u>	<u>386,930</u>
			<u>\$ 711,135</u>	643,130
Add unamortized premium				10,299
Less:				
Unamortized discount				(741)
Deferred loss on refunding				(12,812)
Current portion				<u>(32,250)</u>
				<u>\$ 607,626</u>

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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The liabilities for refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2007, bonds outstanding considered defeased amounted to \$74,030,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provides reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverages for fire, workers' compensation, and public liability. At June 30, 2007, \$190,320,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

*Airports Special Facility Revenue Bonds* — Airports entered into three special facility lease agreements, two with Continental Airlines, Inc. (Continental) in November 1997 and July 2000, and one with Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. (Sky Chefs) effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of \$25,255,000, \$16,600,000, and \$6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to \$36,895,000 at June 30, 2007.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2007:

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

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

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

### **\$16,600,000 Issue**

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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### **\$6,600,000 Issue**

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

Special facility revenue bonds payable at June 30, 2007 consisted of the following (amounts expressed in thousands):

	<u>Continental</u>		<u>Sky Chefs</u>	<u>Total</u>
Current portion	\$ 640	\$ -	\$ 400	\$ 1,040
Noncurrent portion	<u>12,330</u>	<u>21,725</u>	<u>1,800</u>	<u>35,855</u>
	<u>\$ 12,970</u>	<u>\$ 21,725</u>	<u>\$ 2,200</u>	<u>\$ 36,895</u>

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

The following is a summary of the Harbors revenue bonds as of June 30, 2007 (amounts expressed in thousands):

<u>Year of Issue</u>	<u>Final Redemption Date</u>	<u>Interest Rates</u>	<u>Original Amount of Issue</u>	<u>Current Principal Due</u>		<u>Total</u>	<u>Noncurrent</u>
				<u>July 1, 2007</u>	<u>January 1, 2008</u>		
1997	July 1, 2027	3.95%–5.75%	\$ 56,290	\$ 540	\$ -	\$ 540	\$ 51,865
2000	July 1, 2029	4.50%–6.00%	79,405	2,370	-	2,370	61,520
2002	July 1, 2019	3.00%–5.50%	24,420	2,205	-	2,205	13,985
2004	January 1, 2024	2.50%–6.00%	52,030	-	4,805	4,805	34,140
2006	January 1, 2031	4.00%–5.25%	<u>96,570</u>	<u>-</u>	<u>2,105</u>	<u>2,105</u>	<u>92,505</u>
			<u>\$ 308,715</u>	5,115	6,910	12,025	254,015
	Add unamortized premium			-	-	277	1,955
	Less:						
	Unamortized discount			-	-	(125)	(1,877)
	Unamortized deferred loss on refunding			<u>-</u>	<u>-</u>	<u>(489)</u>	<u>(3,203)</u>
				<u>\$ 5,115</u>	<u>\$ 6,910</u>	<u>\$ 11,688</u>	<u>\$ 250,890</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 32,793	\$ 49,787	\$ 82,580
2009	32,553	48,064	80,617
2010	34,398	46,278	80,676
2011	35,255	44,103	79,358
2012	38,758	41,887	80,645
2013-2017	319,935	162,094	482,029
2018-2022	297,368	61,310	358,678
2023-2027	52,298	14,751	67,049
2028-2031	<u>24,995</u>	<u>2,824</u>	<u>27,819</u>
	<u>\$ 868,353</u>	<u>\$ 471,098</u>	<u>\$ 1,339,451</u>

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not include debt service reserves as of June 30, 2007, which are held in anticipation of principal and interest payments due on July 1, 2007, and January 1, 2008.

**Revenue Bonds Authorized but Unissued** — At June 30, 2007, revenue bonds authorized but unissued were approximately \$3,044,069,000.

**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, 2007, amounted to \$1,588,403,000. At June 30, 2007, special purpose revenue bonds of \$1,157,800,000 were authorized but unissued.

**Improvement District Bonds** — The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2007.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

### 7. CHANGES IN LONG-TERM LIABILITIES

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

	Governmental Activities						
	Balance — July 1, 2006 (as previously reported)	Adjustments (Note 15)	Balance — July 1, 2006 (as restated)	Additions	Deductions	Balance — June 30, 2007	Due Within One Year
General obligation bonds payable — net (Note 5)	\$ 4,322,964	\$ (232,170)	\$ 4,090,794	\$ 350,000	\$ (361,080)	\$ 4,079,714	\$ 312,835
Accrued vacation payable	185,023	-	185,023	183,868	(185,023)	183,868	66,329
Revenue bonds payable (Note 6)	306,255	-	306,255	-	(22,945)	283,310	14,885
Reserve for losses and loss adjustment costs (Note 13)	77,500	-	77,500	120,199	(22,190)	175,509	57,297
Claims and judgments payable (Note 12)	204,000	(204,000)	-	-	-	-	-
Capital lease obligations (Note 10)	58,035	-	58,035	24,500	(3,445)	79,090	3,610
Total	\$ 5,153,777	\$ (436,170)	\$ 4,717,607	\$ 678,567	\$ (594,683)	\$ 4,801,491	\$ 454,956

	Business-Type Activities						
	Balance — July 1, 2006 (as previously reported)	Adjustments (Note 15)	Balance — July 1, 2006 (as restated)	Additions	Deductions	Balance — June 30, 2007	Due Within One Year
General obligation bonds payable — net (Note 5)	\$ 137	\$ (90)	\$ 47	\$ -	\$ (10)	\$ 37	\$ 9
Accrued vacation and retirement benefits payable	9,517	82	9,599	5,234	(4,798)	10,035	3,171
Revenue bonds payable (Note 6)	892,455	(3,614)	888,841	98,303	(44,334)	942,810	45,315
Reserve for losses and loss adjustment costs	4,560	-	4,560	1,149	(1,051)	4,658	1,286
Other	953	-	953	-	-	953	-
	907,622	(3,622)	904,000	104,686	(50,193)	958,493	49,781
Add unamortized premium	12,635	(11,671)	964	1,543	(275)	2,232	277
Less:							
Unamortized net discount	(2,570)	800	(1,770)	-	(231)	(2,001)	(125)
Deferred loss on refunding	(18,697)	14,486	(4,211)	-	519	(3,692)	(489)
Total	\$ 898,990	\$ (7)	\$ 898,983	\$ 106,229	\$ (50,180)	\$ 955,032	\$ 49,444

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 80% and 19% of the accrued vacation liability has been paid by the General Fund and Special Revenue Funds, respectively, during the fiscal year ended June 30, 2007.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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### 8. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2007 (amounts expressed in thousands):

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund:		
Capital Projects Fund	\$ 89,900	\$ -
Nonmajor Governmental Funds	<u>64,183</u>	<u>42</u>
	<u>154,083</u>	<u>42</u>
Capital Projects Fund:		
General Fund	-	89,900
Nonmajor Governmental Funds	-	19,500
Proprietary Funds	<u>37,047</u>	<u>-</u>
	<u>37,047</u>	<u>109,400</u>
Nonmajor Governmental Funds:		
General Fund	42	64,183
Capital Projects Fund	19,500	-
Nonmajor Proprietary Fund	<u>-</u>	<u>393</u>
	<u>19,542</u>	<u>64,576</u>
Proprietary Funds -		
Capital Projects Fund	-	37,047
Nonmajor Proprietary Fund - Nonmajor Governmental Fund	<u>393</u>	<u>-</u>
	<u>393</u>	<u>37,047</u>
	<u>\$ 211,065</u>	<u>\$ 211,065</u>

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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### 9. TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2007, transfers by fund were as follows (amounts expressed in thousands):

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	\$ 50,558	\$ 432,737
Capital Projects Fund — Nonmajor Governmental Funds	<u>125,025</u>	<u>31,277</u>
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	<u>5,227</u>	<u>10,298</u>
Nonmajor Governmental Funds:		
General Fund	13,199	20,546
Capital Projects Fund	31,277	125,025
Other Nonmajor Governmental Funds	<u>570,909</u>	<u>176,312</u>
	<u>615,385</u>	<u>321,883</u>
	<u>\$ 796,195</u>	<u>\$ 796,195</u>

The General Fund transferred approximately \$419,538,000 to the Nonmajor Governmental Funds for debt service payments and approximately \$13,199,000 to subsidize various Special Revenue Funds programs. Approximately \$125,025,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.



# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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### 10. LEASES

#### Lease Commitments

*Governmental Activities* — The State leases office facilities and equipment under various operating leases expiring through fiscal 2028. Future minimum lease commitments for noncancelable operating leases as of June 30, 2007, were as follows (amounts expressed in thousands):

<u>Fiscal Year</u>	
2008	\$ 16,689
2009	12,276
2010	9,009
2011	6,230
2012	3,310
2013-2017	4,268
2018-2022	3,305
2023-2027	<u>110</u>
Total future minimum lease payments	<u>\$ 55,197</u>

Rent expenditures for operating leases for the fiscal year ended June 30, 2007, amounted to approximately \$43,985,000.

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

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

In November 2006, the State issued \$24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State's rental payments for the

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5.00%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

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

<u>Fiscal Year</u>	
2008	\$ 7,420
2009	7,427
2010	8,061
2011	8,063
2012	8,062
2013-2017	40,316
2018-2022	18,807
2023-2027	8,559
2028-2032	<u>8,555</u>
Total future minimum lease payments	115,270
Less amount representing interest	<u>(36,180)</u>
Present value of net minimum lease payments	<u>79,090</u>
Less current portion	<u>(3,610)</u>
Noncurrent portion	<u>\$ 75,480</u>

### Lease Rentals

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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prior written notice. As of the date hereof, the lease extension agreement remains in effect, with annual ad-hoc adjustments to Airports system rates and charges and related terms.

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

### *Airports — Prepaid Airport Use Charge Fund*

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). During fiscal 2000, the parties agreed to transfer the signatory airlines' net excess payments into the PAUCF. Net excess payments for fiscal 1996 through 2006 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 \$2,169,000 for fiscal 2007.

### *Airports — System Rates and Charges*

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

- Landing fees, net of aviation fuel tax credits, amounted to \$38,049,000 for fiscal 2007, based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 36% of the Airports landing fees for overseas flights.
- Nonexclusive joint-use premise charges for terminal rentals amounted to \$25,795,000 for fiscal 2007. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per revenue passenger landing.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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- Exclusive use premise charges amounted to \$29,598,000 for fiscal 2007, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to \$16,267,000 for fiscal 2007.
- Airports system support charges amounted to \$618,000 for fiscal 2007. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

### *Airports — Other Operating Leases*

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2007 was approximately \$56,326,000.

In fiscal 2006, Airports converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from 7 months to 13 years. The balance of \$3,339,000 at June 30, 2007, is due as follows: 2008 — \$372,000, 2009 — \$2,846,000, 2010 — \$12,000 and \$109,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 41% of total concession fees revenues for the fiscal year ended June 30, 2007.

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

### *Harbors — Aloha Tower Complex Development*

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

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

The developer later went into bankruptcy. The subsequent operator of the marketplace assumed the obligations of the sublease and the Operations Agreement in March of 1998. This replacement operator

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors' construction punchlist have yet to be completed and are being pursued with the new operator.

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

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

Revenues for the fiscal year ended June 30, 2007 amounted to \$85,663,000 and have been included in rental revenues.

### *Harbors — Leasing Operations*

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

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2007 (amounts expressed in thousands):

<u>Fiscal Year</u>	<u>Proprietary Funds</u>		
	<u>Airports</u>	<u>Harbors</u>	<u>Total</u>
2008	\$ 68,041	\$ 8,908	\$ 76,949
2009	61,555	8,573	70,128
2010	54,069	8,438	62,507
2011	53,868	8,560	62,428
2012	50,055	8,322	58,377
Thereafter	<u>67,840</u>	<u>106,024</u>	<u>173,864</u>
	<u>\$ 355,428</u>	<u>\$ 148,825</u>	<u>\$ 504,253</u>

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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### *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, 2007, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	\$ 66,113
Less amount representing interest	<u>(33,072)</u>
	33,041
Cash with trustee and other	<u>4,101</u>
	<u>\$ 37,142</u>

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2007, consisted of the following (amounts expressed in thousands):

#### **Fiscal Year**

2008	\$ 3,383
2009	3,357
2010	3,398
2011	3,716
2012	2,765
Thereafter	<u>53,102</u>
	<u>\$ 69,721</u>

## **11. RETIREMENT BENEFITS**

### **Plan Description**

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

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

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

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

### *Funding Policy*

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

The State's contribution requirements as of June 30, 2007, 2006, and 2005, were approximately \$341,896,000, \$318,144,000, and \$251,685,000, respectively. The State contributed 95.8%, 100%, and 100% of its required contributions for those years respectively. Covered payroll for the fiscal year ended June 30, 2007 was approximately \$2,484,490,000.

### *Post-Retirement Health Care and Life Insurance Benefits*

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

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

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the



# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 37,000 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2007, expenditures of \$242,697,000 were recognized for post-retirement health care and life insurance benefits, approximately \$34,079,000 of which is attributable to the Component Units.

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

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

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 EUTF reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB 10), as amended.

The EUTF administers postemployment healthcare benefits under an agent multiple-employer defined benefit plan as defined by GASB 43.

In 2007, the accounting for the active employee healthcare benefits are reported within the Proprietary Funds financial statements. The accounting for the retiree healthcare benefits are reported in the Fiduciary Funds financial statements. For financial reporting purposes, certain assets, liabilities, revenues and expenses have been allocated for the separate accounting of active and retiree healthcare benefits. In previous years, the retirees were included in the Nonmajor Proprietary Fund in the Proprietary Funds financial statements. At July 1, 2007, the net assets attributable to retiree healthcare benefits was \$24,940,000, and the beginning net assets were restated to present these amounts within the Fiduciary Funds financial statements (see Note 15).

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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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 5). At June 30, 2007, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Economic Development	\$ 223,430
Highways	67,045
Agriculture	7,887
Natural Resources	5,663
All Other	539
Administrative Support	<u>7,054</u>
	<u>\$311,618</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, 2007, accumulated sick leave was approximately \$1,304,646,000.

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

*Guarantees of Indebtedness* — The State is authorized to guarantee indebtedness of others at a maximum amount of approximately \$191,000,000 for aquacultural loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2007.

#### Proprietary Fund Type — Enterprise Funds

##### *Construction and Service Contracts*

At June 30, 2007, the Enterprise Funds had commitments of approximately \$341,445,000 for construction and service contracts.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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### Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2007, 2006, and 2005, approximated \$12,462,000, \$20,700,000, and \$1,200,000, respectively.

### *Tobacco Settlement*

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. 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 \$36,199,000 during the fiscal year ended June 30, 2007. As of June 30, 2007, the State expects to receive \$27,100,000 for the first six months of fiscal 2008.

### *Office of Hawaiian Affairs*

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

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

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

In 1990, in response to *Yamasaki*, the State Legislature adopted Act 304, SLH of 1990, which (1) defined "public land trust" and "revenue," (2) specified that 20% of the "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of the conditions of native Hawaiians, and (3) established a process for OHA and the Director of Finance to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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period from June 16, 1980 through June 30, 1991. Since fiscal 1992, the State, through its departments and agencies, has been paying 20% of “revenue” to OHA on a quarterly basis.

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

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

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

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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Constitution. The State Legislature took no action during the 2002 legislative session, and the State's payments of 20% of "revenue" were discontinued as of the first quarter in fiscal 2002.

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

Alternatively, OHA sought a declaration that the amounts the Housing Finance and Development Corporation (the Corporation) and the State paid to OHA for ceded lands the Corporation planned to use to develop and sell housing units pursuant to Act 318, SLH of 1992, were insufficient. Act 318

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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established a separate process for valuing the ceded lands the Corporation used for its two housing developments at Kealakeke and Lahaina, and quantifying the amounts of income and proceeds from the ceded lands that the Corporation and State were required to pay OHA for conveying and using the parcels for the Corporation's two projects.

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

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

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

The HFDC and the HHA were merged after the filings of the second and third lawsuits described above into the HCDCH, which was subsequently bifurcated into the HHFDC and the HPHA. The Hawaii Housing Finance and Development Corporation has replaced the HFDC as a defendant in the second lawsuit, and the Hawaii Public Housing Authority has replaced the HHA as a defendant in the third lawsuit.

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

*Department of Hawaiian Home Lands:*

*Hawaiian Home Lands Trust Fund*

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

The State transferred \$30,000,000 to the Hawaiian Home Lands Trust Fund during the fiscal year ended June 30, 2007.

As of June 30, 2007, the State has transferred approximately \$360,000,000 to the Hawaiian Home Lands Trust Fund. The State's remaining \$240,000,000 obligation discounted at 5% and assuming annual payments of \$30,000,000 over the remaining term of the obligation is approximately \$193,896,000.

### *Transfer of Property*

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

### *Individual Claims*

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

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

Legislation to allow the Panel and the State Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the State Legislature, but vetoed by the Governor in the 1999 legislative session,



# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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and the Panel unseated on December 31, 1999. As of September 30, 1999, claims from 1,376 claimants had not been reviewed by the Panel, and all but the claims of two claimants had not been acted upon by the State Legislature. In 1997, the State Legislature declared it to be its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it.

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

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

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

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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The First Circuit Court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court, and entered an order staying all proceedings in *Kalima I* pending the Hawaii Supreme Court's disposition of the appeal. Orders to stay proceedings in all of the other cases were also entered. In a decision issued on June 30, 2006, the Hawaii Supreme Court affirmed the Plaintiffs' right to pursue their claims for damages under HRS Chapter 674, reversed the First Circuit Court's ruling that the Plaintiffs had a similar right under HRS Chapter 661, and remanded the case to the First Circuit Court for further proceedings. Proceedings in *Kalima II* and all of the other cases remained stayed.

Trial in *Kalima I* is now scheduled to begin October 6, 2008. By various stipulations and orders, the *Silva*, *Wilhelm*, *Williamson*, and *Hanohano* cases have been dismissed. Proceedings in *Kalima II* and *Aguiar* remain stayed.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) 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) defectively constructed homes or infrastructure, (6) being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first. Trial on the waiting subclass' claims is schedule to begin on October 6, 2008.

The State intends to vigorously defend against all claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all the claims in the Plaintiffs' 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 three fiscal years. A summary of the State's underwriting risks is as follows:

#### **Property Insurance**

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, tsunami, and volcanic action coverage. The limit of loss per occurrence is \$100,000,000, except for flood and earthquake which individually is a \$40,000,000

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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aggregate loss, terrorism which is \$50,000,000 per occurrence, and boiler and machinery which is \$40,000,000 per occurrence.

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

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

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

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

### **Medical Insurance**

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

### **Self-Insured Risks**

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

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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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, 2007 and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2007 (amounts expressed in thousands):

Unpaid losses and loss adjustment costs — beginning of the fiscal year	\$ 77,500
Incurred losses and loss adjustment costs:	
Provision for insured events of current fiscal year	117,948
Increase in provision for insured events of prior fiscal years	<u>2,251</u>
Total incurred losses and loss adjustment costs	<u>120,199</u>
Payments:	
Losses and loss adjustment costs attributable to insured events of current fiscal year	(2,506)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	<u>(19,684)</u>
Total payments	<u>(22,190)</u>
Unpaid losses and loss adjustment costs — end of the fiscal year	<u>\$ 175,509</u>

### 14. SUBSEQUENT EVENTS

#### University of Hawaii

In the first half of fiscal 2008, over \$101,100,000 in capital improvements program funds were released by the Governor for UH projects. In July 2007, \$35,000,000 was released for the design of the first increment of the University of Hawai'i – West Oahu campus in Kapolei and the construction of infrastructure improvements to serve the campus and other UH-owned properties. In August 2007, \$50,000,000 was released for plans, designs and construction for the capital renewal, health and safety and infrastructure projects at UH campuses. In September 2007, \$6,000,000 was released for the plans, design and construction of the University of Hawai'i at Hilo College of Pharmacy building. In October 2007, \$6,837,000 was released for the design, construction and equipment for the statewide Community College System, Temporary Facilities for Nursing Program. In November 2007, \$3,288,000 was released for the design and construction for the reroofing of Honolulu Community College's Pacific Aerospace Training Center Hangar 111.

#### Hawaii Housing Finance and Development Corporation

On July 1, 2007, the HHFDC redeemed \$13,545,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including \$8,610,000 of early redemptions.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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During February 2008, the auction process for the Hawaii Rental Housing System, Refunding Bonds of 2004, Series B, began to fail. Due to ongoing issues in the U.S. credit markets, particularly related to auction rate securities, management expects the auctions for these bonds to continue to fail. Accordingly, management has begun planning to refinance the bonds into fixed or variable rate securities and has targeted completion of the refinancing by July 2008. Management intends to cover the increased debt service costs through rent increases and existing reserves.

### **Hawaii Health Systems Corporation**

#### **Act 290 – Regional System Board of Directors**

In June 2007, the State Legislature enacted Act 290, SLH of 2007. The Act, which became effective July 1, 2007, requires the establishment of a 7 to 15-member regional system board of directors for each of the five regions of the HHSC. Each regional board of directors is given custodial control and responsibility for management of the facilities and other assets in their respective regions. The Act requires that these regional boards be formed no later than January 1, 2008. The Act also restructures the 13 member HHSC board of directors to 15 members, comprised of 10 members appointed by the Governor from nominees submitted by legislative leadership (with two at-large members at the governor's discretion), two physician members selected by the HHSC's board of directors, and the Director of Health.

Act 290 also exempts the regions from the requirements of the state procurement code and other exemptions from state laws, such as tax clearance certificate requirements, the concession law, and the sunshine law.

The Act appropriates \$750,000 to pay for implementation of the new structure.

#### **Purchase of Assisted Living Facility**

In September 2007, Alii Community Care, Inc. (Alii) exercised its option to purchase its 113-unit assisted living and alzheimer facility and personal property from the developer/landlord for \$16 million. In connection with the purchase, Alii also assumed the land lease on which the facility is situated, and a parking license covering real property adjacent to the facility.

In connection with the purchase agreement, Alii also reached an agreement with the developer/landlord concerning an arbitration award that was rendered in favor of the developer/landlord in January 2006 for \$1.9 million. The arbitration decision was on appeal to the Intermediate Court of Appeals of the State of Hawaii. Alii and the developer/landlord agreed to settle the \$1.9 million judgment for \$500,000. This settlement payment is in addition to the \$16 million purchase price. Because of the settlement of the arbitration award, the HHSC adjusted the arbitration liability recorded at June 30, 2007 to \$500,000.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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### **Act 113 - Kahuku Hospital**

In June 2007, the State Legislature enacted Act 113, SLH of 2007. The Act, amends HRS Chapter 323F, to allow for the assimilation of Kahuku Hospital into the HHSC in a manner and to an extent that may be negotiated between Kahuku Hospital and the HHSC. The Act also specifies that none of the liabilities of Kahuku Hospital shall become the liabilities of the HHSC, that the HHSC may adjust the levels of services provided by Kahuku Hospital, and that the employees of Kahuku Hospital shall not be considered employees of the State. The Act appropriated \$3,900,000 to pay for the costs of assimilating Kahuku Hospital into the HHSC and to operate the facility.

From July 1, 2007 through October 31, 2007, the HHSC operated Kahuku Hospital under a management agreement between the two parties. On November 1, 2007, the HHSC purchased the assets of Kahuku Hospital, and will operate the facility as Kahuku Medical Center, a nonprofit corporation of which the HHSC is the sole member.

### **Airports**

In April 2008, Aloha Airlines and ATA airlines ceased passenger service operations to Hawaii, impacting approximately 15% of the visitor traffic from the mainland U.S. These closures resulted in the loss of over 2,000 jobs and are expected to impact Hawaii's tourism industry in 2008. The effect of the airline closures on the State's operations is unknown at this time.

## **15. RESTATEMENTS**

Subsequent to the issuance of the State's fiscal 2006 financial statements, management determined that the financial statements were misstated. As a result, certain amounts in the government-wide financial statements, fund financial statements, and supplementary information have been restated from the amounts previously reported. The restatements are summarized below and are recorded as adjustments to the beginning net assets of the government-wide financial statements, and beginning fund balance in the Governmental Funds financial statements.

### ***Government-Wide Financial Statements:***

- In previous years, the Hawaiian Home Lands Trust Fund was presented as a Private Purpose Trust Fund within the Fiduciary Funds financial statements. Subsequent to the issuance of the State's fiscal 2006 financial statements, management determined that the Hawaiian Home Lands Trust Fund does not meet the criteria of a Private Purpose Trust Fund as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), and should be reflected within Other Governmental Funds in the Governmental Funds financial statements. Act 14, SSLH of 1995, was approved by the Governor on June 29, 1995 and obligates the State to make 20 annual deposits of \$30,000,000, or their discounted value equivalent, into the Hawaiian Home Lands Trust Fund beginning in 1996. As of June 30, 2006, the State had transferred approximately \$330,000,000 to the Hawaiian Home Lands Trust Fund, and the remaining \$270,000,000 obligation was discounted at 6% and recorded as

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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claims and judgments payable in the amount of \$204,000,000 in the government-wide financial statements as of June 30, 2006. As the Hawaiian Home Lands Trust Fund is not a Private Purpose Trust Fund, but rather a fund included in the Primary Government, the claims and judgments payable was overstated as of June 30, 2006.

- In previous years, the HCDA and the HTA were presented within Other Governmental Funds in the Governmental Funds financial statements. Management determined that the HCDA and the HTA should be presented as discretely presented Component Units as defined in GASB 14. As these entities were determined to be Component Units, the government-wide net assets were reduced for the HCDA and the HTA's capital assets (net of accumulated depreciation) of \$181,381,000 and \$272,715,000, respectively, as of June 30, 2006. In addition, the government-wide net assets were increased for the HTA's general obligation bonds payable of \$232,170,000 as of June 30, 2006.
- Capital assets (net of accumulated depreciation) in the Primary Government financial statements were understated as of June 30, 2006 by \$13,501,000.
- The Primary Government financial statements did not reflect deferred bond issuance costs of \$2,115,000 as of June 30, 2006.
- The Primary Government financial statements did not reflect prepaid expenses of \$4,024,000 as of June 30, 2006.

### *Component Units:*

- Subsequent to the issuance of the State's fiscal 2006 financial statements, management determined that the HCDA and the HTA should be presented as discretely presented Component Units as defined in GASB 14. The HCDA and the HTA were previously presented within Other Governmental Funds in the Governmental Funds financial statements. The effect of restating the HCDA and the HTA as Component Units was to increase/(decrease) the beginning net assets of the Component Units by \$274,472,000 and (\$291,000), respectively, as of June 30, 2006. Beginning net assets in the government-wide financial statements and beginning fund balance in the governmental funds financial statements were decreased as a result of the restatements.
- In accordance with Act 196, SLH of 2005, as amended by Act 180, SLH of 2006, the HCDCH was split into two organizations to more effectively concentrate on the development of affordable housing. Effective July 1, 2006, the HCDCH was separated into (1) the HPHA, and (2) the HHFDC. The June 30, 2006 net assets of the Component Units have been restated to separate the HCDCH into the HPHA and the HHFDC.
- The Governmental Funds financial statements did not reflect a \$28,600,000 liability to the HCDCH (transferred to the HHFDC on July 1, 2006) incurred as payment for the transfer of land to DHHL as of June 30, 2006. Beginning net assets of the Primary Government in the government-wide financial statements were also decreased as a result of the restatement.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

The effect of the abovementioned restatements on the statement of net assets is as follows (amounts expressed in thousands):

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
NET ASSETS - Beginning of year - as previously reported	\$ 6,262,975	\$ 2,640,090	\$ 8,903,065	\$ 2,305,552
ADJUSTMENTS:				
<u>Incorrect Financial Statement Presentation</u>				
Hawaiian Homes Lands Trust Fund should be accounted for in a Special Revenue Fund and not in a Private Purpose Trust Fund	204,000	-	204,000	-
HCDA should be accounted for as a Component Unit and not in a Special Revenue Fund	(181,381)	-	(181,381)	274,472
HTA should be accounted for as a Component Unit and not in a Special Revenue Fund	(272,715)	-	(272,715)	(291)
General obligation bonds payable by HTA and not by the Primary Government	232,170	-	232,170	-
HCDCH should be separated into:				
HHFDC	-	-	-	(334,264)
HPHA	-	-	-	336,459
<u>Accounting Errors:</u>				
Understatement of beginning capital assets	13,501	-	13,501	-
Understatement of deferred bond issue costs	2,115	-	2,115	-
Understatement of prepaid expenses	4,024	-	4,024	-
Land transfer liability to HHFDC	(28,600)	-	(28,600)	-
Carried forward from Proprietary Funds	-	403,007	403,007	-
Carried forward from Governmental Funds	<u>(266,542)</u>	<u>-</u>	<u>(266,542)</u>	<u>-</u>
TOTAL Adjustments	(293,428)	403,007	109,579	276,376
NET ASSETS - Beginning of year - as restated	<u>\$ 5,969,547</u>	<u>\$ 3,043,097</u>	<u>\$ 9,012,644</u>	<u>\$ 2,581,928</u>



# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

### *Fund Financial Statements:*

#### **Governmental Funds**

- The liability recorded for allotments payable to certain component units was misstated due to a difference in the interpretation of how to account for capital funding. The effect of the restatement was to decrease beginning fund balance in the Governmental Funds financial statements by \$32,647,000 in the Capital Projects Fund as of June 30, 2006. Beginning net assets of the Primary Government in the government-wide financial statements were also decreased by the same amount as a result of the restatement.
- The liability recorded for allotments payable to the HCDA was misstated due to management determining that the HCDA should be accounted for as a discretely presented Component Unit. The effect of the restatement was to decrease beginning fund balance in the Governmental Funds financial statements by \$19,093,000 in the Capital Projects Fund as of June 30, 2006. Beginning net assets of the Primary Government in the government-wide financial statements were also decreased by the same amount as a result of the restatement.

The effect of the abovementioned restatements on beginning fund balance was as follows (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>
FUND BALANCE - Beginning of year - as previously reported	\$ 1,263,569	\$ 194,878	\$ 4,755	\$ 1,411,061	\$ 2,874,263
ADJUSTMENTS:					
Understatement of amounts due for state allotments	-	(32,647)	-	-	(32,647)
Understatement of amounts due to the HCDA for state allotments	-	(19,093)	-	-	(19,093)
Presentation of the WPCF and the DWTLF as Nonmajor Proprietary Funds	-	-	-	(317,026)	(317,026)
Presentation of the HCDA and the HTA as discretely presented Component Units	-	-	-	(79,547)	(79,547)
Hawaiian Homes Lands Trust Fund should be accounted for as a Special Revenue Fund and not as a Private Purpose Trust Fund	-	-	-	181,771	181,771
Total Adjustments	-	(51,740)	-	(214,802)	(266,542)
FUND BALANCE - Beginning of year - as restated	<u>\$ 1,263,569</u>	<u>\$ 143,138</u>	<u>\$ 4,755</u>	<u>\$ 1,196,259</u>	<u>\$ 2,607,721</u>

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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### Proprietary Funds

- In 2007, the EUTF adopted GASB 43 (see Note 11), which required retiree healthcare benefits to be reported in the Fiduciary Funds financial statements. The postretirement plan benefits related to active employees are reported within the Proprietary Funds in accordance with GASB 10.
- Subsequent to the issuance of the State's fiscal 2006 financial statements, the State determined that the net assets related to active employee healthcare benefits was misstated. The effect of restating the net assets related to active employee healthcare benefits was to increase beginning net assets by \$23,329,000 as of June 30, 2006. Beginning net assets in the government-wide financial statements were increased by the same amount as a result of the restatement.
- In previous years, the WPCF and the DWTLF were previously presented within Other Governmental Funds of the Governmental Funds financials statements; however, in 2007, it was determined that the WPCF and the DWTLF are Enterprise Funds as defined in GASB 34, and should be presented within nonmajor Proprietary Funds in the Proprietary Funds financial statements. The effect of restating the WPCF and the DWTLF as enterprise funds was to increase the beginning net assets of the Proprietary Funds by \$286,751,000 and \$36,570,000, respectively, as of June 30, 2006. Beginning fund balance in the Governmental Funds financial statements decreased as a result of the restatements.
- At June 30, 2006, the beginning net assets was understated by \$56,357,000 because the unemployment compensation payable was misstated due to the incorrect amount being recorded for vouchers payable. The effect was to increase beginning net assets of the Proprietary Funds and the beginning net assets in the government-wide financial statements by \$56,357,000 as of June 30, 2006.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

The effect of the above mentioned restatements on the beginning fund balance are as follows (amounts expressed in thousands).

	<u>Airports</u>	<u>Harbors</u>	<u>Unemployment Compensation Fund</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total Proprietary Funds</u>
FUND BALANCE - Beginning of year - as previously reported	\$ 1,565,070	\$ 598,307	\$ 475,803	\$ 910	\$ 2,640,090
Adoption of GASB 43	-	-	-	23,329	23,329
Presentation of the WPCF as a Nonmajor Proprietary Fund	-	-	-	286,751	286,751
Presentation of the DWTLF as a Nonmajor Proprietary Fund	-	-	-	36,570	36,570
Overstatement of unemployment compensation payable	-	-	<u>56,357</u>	-	<u>56,357</u>
Total Adjustments	-	-	56,357	346,650	403,007
FUND BALANCE - Beginning of year - as restated	<u>\$ 1,565,070</u>	<u>\$ 598,307</u>	<u>\$ 532,160</u>	<u>\$ 347,560</u>	<u>\$ 3,043,097</u>

### Fiduciary Funds

- In 2007, the EUTF adopted GASB 43 (see Note 11), which required retiree healthcare benefits to be reported in the Fiduciary Funds financial statements. In previous years, the retirees were included in the Nonmajor Proprietary Fund in the Proprietary Funds financial statements. At June 30, 2006, the net assets attributable to retiree healthcare benefits were \$24,940,000, and the fiscal 2006 financial statements were restated to present these amounts within the Fiduciary Funds financial statements.
- In previous years, the Hawaiian Home Lands Trust Fund was presented as a Private Purpose Trust Fund within the Fiduciary Funds financial statements. Subsequent to the issuance of the State's fiscal 2006 financial statements, management determined that the Hawaiian Home Lands Trust Fund does not meet the criteria of a Private Purpose Trust Fund as defined in GASB 34, and should be reflected within Other Governmental Funds in the Governmental Funds financial statements. The effect of restating the Hawaiian Home Lands Trust Fund as a Nonmajor Governmental Fund was to increase the Governmental Funds and decrease the Fiduciary Funds beginning fund balance in the respective fund financial statement by \$181,771,000 as of June 30, 2006.

# STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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The effect on beginning net assets is as follows (amounts expressed in thousands):

	<u>Private Purpose Trust Fund</u>
NET ASSETS - Beginning of year - as previously reported	181,771
Adoption of GASB 43	24,940
Hawaiian Homes Lands Trust Fund should be accounted for as a Special Revenue Fund and not as a Private Purpose Trust Fund	<u>(181,771)</u>
Total Adjustments	(156,831)
NET ASSETS - Beginning of year - as restated	<u>\$ 24,940</u>

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## **SUPPLEMENTARY INFORMATION**

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## NONMAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

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

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

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

**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, 2007

(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
<b>ASSETS</b>							
CASH AND CASH EQUIVALENTS	\$ 72,182	\$ 32,115	\$ 16,228	\$ 21,006	\$ 37,269	\$ 6,082	\$ 3,848
RECEIVABLES:							
Accrued interest	2,232	554	1,013	9	185	551	261
Notes and loans — net	-	15,039	-	-	-	39	-
Other	17,796	-	-	-	-	-	-
DUE FROM OTHER FUNDS	13,500	-	-	-	6,000	-	-
INVESTMENTS	118,916	75,770	123,195	813	32,264	26,576	29,082
OTHER ASSETS	-	1	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 224,626</b>	<b>\$ 123,479</b>	<b>\$ 140,436</b>	<b>\$ 21,828</b>	<b>\$ 75,718</b>	<b>\$ 33,248</b>	<b>\$ 33,191</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES:</b>							
Vouchers and contracts payable	\$ 12,221	\$ 2,760	\$ 11,359	\$ 400	\$ 88,425	\$ 3,864	\$ 998
Other accrued liabilities	287	723	1,537	166	1,981	3,458	901
Due to other funds	-	-	-	-	-	-	-
Due to Proprietary Funds	-	-	393	-	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	12,508	3,483	13,289	566	90,406	7,322	1,899
<b>FUND BALANCES:</b>							
Reserved for:							
Continuing appropriations	170,341	26,699	47,026	49,704	36,529	19,934	1,107
Receivables and advances	-	16,547	-	-	-	48	-
Bond redemption and other	-	29,918	-	-	-	-	-
Unreserved for Special Revenue Funds:							
Designated for future expenditures	9,709	36,956	5,022	190	750	4,886	-
Undesignated	32,068	9,876	75,099	(28,632)	(51,967)	1,058	30,185
Total fund balances	212,118	119,996	127,147	21,262	(14,688)	25,926	31,292
<b>TOTAL</b>	<b>\$ 224,626</b>	<b>\$ 123,479</b>	<b>\$ 140,436</b>	<b>\$ 21,828</b>	<b>\$ 75,718</b>	<b>\$ 33,248</b>	<b>\$ 33,191</b>

See accompanying independent auditors' report



<u>Regulatory</u>	<u>Hawaiian Programs</u>	<u>Administrative Support</u>	<u>All Other</u>	<u>Total</u>	<u>Debt Service Fund</u>	<u>Eliminations</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 3,382	\$ 66,715	\$ 20,696	\$ 14,654	\$ 294,177	\$ 22,603	\$ -	\$ 316,780
339	1,784	422	92	7,442	-	-	7,442
-	50,954	-	-	66,032	-	-	66,032
-	-	-	-	17,796	-	-	17,796
-	-	-	-	19,500	42	-	19,542
43,594	194,200	145,880	11,752	802,042	-	-	802,042
-	24,500	-	-	24,501	-	-	24,501
<u>\$ 47,315</u>	<u>\$ 338,153</u>	<u>\$ 166,998</u>	<u>\$ 26,498</u>	<u>\$ 1,231,490</u>	<u>\$ 22,645</u>	<u>\$ -</u>	<u>\$ 1,254,135</u>
\$ 86	\$ 3,835	\$ 699	\$ 5,505	\$ 130,152	\$ -	\$ -	\$ 130,152
1,028	188	1,063	571	11,903	-	-	11,903
-	63,676	-	507	64,183	-	-	64,183
-	-	-	-	393	-	-	393
-	-	-	-	-	940	-	940
<u>1,114</u>	<u>67,699</u>	<u>1,762</u>	<u>6,583</u>	<u>206,631</u>	<u>940</u>	<u>-</u>	<u>207,571</u>
5,044	3,099	19,858	22,634	401,975	(14,436)	-	387,539
-	47,792	-	-	64,387	-	-	64,387
-	(1,250)	-	-	28,668	21,663	-	50,331
-	1,481	23,756	536	83,286	-	-	83,286
<u>41,157</u>	<u>219,332</u>	<u>121,622</u>	<u>(3,255)</u>	<u>446,543</u>	<u>14,478</u>	<u>-</u>	<u>461,021</u>
<u>46,201</u>	<u>270,454</u>	<u>165,236</u>	<u>19,915</u>	<u>1,024,859</u>	<u>21,705</u>	<u>-</u>	<u>1,046,564</u>
<u>\$ 47,315</u>	<u>\$ 338,153</u>	<u>\$ 166,998</u>	<u>\$ 26,498</u>	<u>\$ 1,231,490</u>	<u>\$ 22,645</u>	<u>\$ -</u>	<u>\$ 1,254,135</u>

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
 (Amounts in thousands)

	Special Revenue Funds							
	Highways	Natural Resources	Wastewater	Health	Human Services	Education	Economic Development	Employment
REVENUES:								
Taxes:								
Franchise tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other tax revenue	-	16,915	-	1,741	-	-	-	956
Transient accommodations tax	-	1,000	-	-	-	-	-	-
Tobacco and liquor taxes	-	-	-	-	-	-	-	-
Liquid fuel tax	85,271	250	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-	-
Vehicle weight and registration tax	53,688	-	-	5,734	-	-	-	-
Rental motor/tour vehicle surcharge tax	49,479	-	-	-	-	-	-	-
Total taxes	188,438	18,165	-	7,475	-	-	-	956
Interest and investment income	16,917	4,751	-	5,298	77	1,064	1,281	1,656
Charges for current services	1,773	18,370	-	65,687	275	34,498	4,213	13,291
Intergovernmental	108,543	18,618	-	95,617	371,416	232,236	8,785	40,247
Rentals	-	4,464	-	-	-	38	2,123	-
Fines, forfeitures, and penalties	1,248	49	-	2,148	-	-	-	650
Licenses and fees	1,961	596	-	1,614	105	752	-	-
Revenues from private sources	-	15	-	36,535	27	107	-	-
Other	4,530	3,819	-	111	682	8,474	1,190	1,428
Total revenues	323,410	68,847	-	214,485	372,582	277,169	17,592	58,228
EXPENDITURES:								
Current:								
General government	-	3,508	-	30	-	-	-	-
Public safety	-	1,326	-	-	-	-	-	2,215
Conservation of natural resources	-	54,659	-	360	-	-	-	-
Health	-	-	-	247,747	-	-	-	-
Welfare	-	-	-	-	306,078	-	-	-
Lower education	-	-	-	-	-	356,987	-	-
Other education	-	-	-	-	13,633	-	-	-
Culture and recreation	-	7,612	-	-	-	3,908	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Economic development and assistance	-	2,462	-	-	-	-	27,313	61,675
Other	-	-	-	-	-	-	-	-
Highways	195,182	46	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Total expenditures	195,182	69,613	-	248,137	319,711	360,895	27,313	63,890
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	128,228	(766)	-	(33,652)	52,871	(83,726)	(9,721)	(5,662)
OTHER FINANCING SOURCES (USES):								
Issuance of certificates of participation	-	-	-	-	-	-	-	-
Transfers in	37	3,134	-	46,816	11,884	1,680	10,050	86
Transfers out	(188,287)	(2,578)	-	(14,058)	(76,399)	-	-	(520)
Total other financing sources (uses)	(188,250)	556	-	32,758	(64,515)	1,680	10,050	(434)
NET CHANGE IN FUND BALANCES	(60,022)	(210)	-	(894)	(11,644)	(82,046)	329	(6,096)
FUND BALANCES — Beginning of year — as previously reported								
	272,140	120,206	317,026	128,041	32,906	67,358	105,144	37,388
Adjustments (Note 15)	-	-	(317,026)	-	-	-	(79,547)	-
FUND BALANCES — Beginning of year — as restated								
	272,140	120,206	-	128,041	32,906	67,358	25,597	37,388
FUND BALANCES — End of year	\$ 212,118	\$ 119,996	\$ -	\$ 127,147	\$ 21,262	\$ (14,688)	\$ 25,926	\$ 31,292

Special Revenue Funds					Debt Service Fund	Eliminations	Total Nonmajor Governmental Funds
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total			
\$ 2,000	\$ -	\$ -	\$ -	\$ 2,000	\$ -	\$ -	\$ 2,000
-	-	-	-	19,612	-	-	19,612
-	-	-	-	1,000	-	-	1,000
-	-	1,532	-	1,532	-	-	1,532
-	-	-	1,658	87,179	-	-	87,179
2,008	-	-	-	2,008	-	-	2,008
-	-	-	-	59,422	-	-	59,422
-	-	-	-	49,479	-	-	49,479
4,008	-	1,532	1,658	222,232	-	-	222,232
1,923	13,772	3,253	602	50,594	-	-	50,594
17,327	487	56,361	18,490	230,772	-	-	230,772
-	21,820	22,670	44,144	964,096	-	-	964,096
-	11,355	911	2,184	21,075	-	-	21,075
1,298	-	227	2,156	7,776	-	-	7,776
9,460	-	14,697	407	29,592	-	-	29,592
-	-	859	27	37,570	-	-	37,570
72	32,498	987	9,644	63,435	26,854	-	90,289
34,088	79,932	101,497	79,312	1,627,142	26,854	-	1,653,996
-	-	25,101	9,478	38,117	-	-	38,117
33,153	-	11,184	63,273	111,151	-	-	111,151
-	-	3	-	55,022	-	-	55,022
-	-	6	-	247,753	-	-	247,753
-	-	15,881	349	322,308	-	-	322,308
-	-	7,600	-	364,587	-	-	364,587
-	-	-	-	13,633	-	-	13,633
-	-	9,787	12,995	34,302	-	-	34,302
-	141,574	-	-	141,574	-	-	141,574
-	-	3	-	91,453	-	-	91,453
-	-	3,832	-	3,832	-	-	3,832
-	-	-	-	195,228	-	-	195,228
-	-	-	-	-	502,733	-	502,733
33,153	141,574	73,397	86,095	1,618,960	502,733	-	2,121,693
935	(61,642)	28,100	(6,783)	8,182	(475,879)	-	(467,697)
-	24,500	-	-	24,500	-	-	24,500
2,701	31,284	9,957	7,398	125,027	490,358	-	615,385
(2,593)	(10,250)	(23,284)	(3,914)	(321,883)	-	-	(321,883)
108	45,534	(13,327)	3,484	(172,356)	490,358	-	318,002
1,043	(16,108)	14,773	(3,299)	(164,174)	14,479	-	(149,695)
45,158	104,791	150,463	23,214	1,403,835	7,226	-	1,411,061
-	181,771	-	-	(214,802)	-	-	(214,802)
45,158	286,562	150,463	23,214	1,189,033	7,226	-	1,196,259
\$ 46,201	\$ 270,454	\$ 165,236	\$ 19,915	\$ 1,024,859	\$ 21,705	\$ -	\$ 1,046,564

# STATE OF HAWAII

## NONMAJOR SPECIAL REVENUE FUNDS

### COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(Amounts in thousands)

	Highways			Natural Resources		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Liquid fuel tax:						
Highways	\$ 82,948	\$ 85,618	\$ 2,670	\$ 220	\$ 250	\$ 30
Boating	-	-	-	-	-	-
Vehicle registration fee tax	20,048	20,765	717	-	-	-
State vehicle weight tax	29,719	33,309	3,590	-	-	-
Rental/tour vehicle surcharge tax	47,891	46,989	(902)	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	14,798	16,915	2,117
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	<u>180,606</u>	<u>186,681</u>	<u>6,075</u>	<u>16,018</u>	<u>18,165</u>	<u>2,147</u>
Non-taxes:						
Interest and investment income	10,900	16,511	5,611	2,197	3,318	1,121
Charges for current services	20,162	1,773	(18,389)	18,218	18,370	152
Intergovernmental	108,100	108,543	443	10,741	18,618	7,877
Rentals	-	-	-	2,871	4,464	1,593
Fines, forfeitures and penalties	1,075	1,257	182	64	49	(15)
Licenses and fees	1,844	1,961	117	800	596	(204)
Revenues from private sources	-	-	-	1	15	14
Other	-	32,535	32,535	2,873	4,614	1,741
Total non-taxes	<u>142,081</u>	<u>162,580</u>	<u>20,499</u>	<u>37,765</u>	<u>50,044</u>	<u>12,279</u>
Total revenues	<u>322,687</u>	<u>349,261</u>	<u>26,574</u>	<u>53,783</u>	<u>68,209</u>	<u>14,426</u>
EXPENDITURES:						
General government	-	-	-	3,491	3,478	13
Public safety	-	-	-	3,748	1,477	2,271
Highways	292,293	221,927	70,366	-	-	-
Conservation of natural resources	-	-	-	71,961	50,486	21,475
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	8,589	6,880	1,709
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	1,683	1,124	559
Other	-	-	-	-	-	-
Total expenditures	<u>292,293</u>	<u>221,927</u>	<u>70,366</u>	<u>89,472</u>	<u>63,445</u>	<u>26,027</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 30,394</u>	<u>\$ 127,334</u>	<u>\$ 96,940</u>	<u>\$ (35,689)</u>	<u>\$ 4,764</u>	<u>\$ 40,453</u>

Health			Education		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5,049	5,734	685	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,800	1,741	(59)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>6,849</u>	<u>7,475</u>	<u>626</u>	<u>-</u>	<u>-</u>	<u>-</u>
1,758	5,262	3,504	428	964	536
76,703	92,135	15,432	31,496	34,498	3,002
97,218	98,789	1,571	204,443	232,236	27,793
-	-	-	36	38	2
792	2,148	1,356	-	-	-
807	771	(36)	732	752	20
42,155	36,535	(5,620)	10	107	97
85	46,577	46,492	1,780	10,122	8,342
<u>219,518</u>	<u>282,217</u>	<u>62,699</u>	<u>238,925</u>	<u>278,717</u>	<u>39,792</u>
<u>226,367</u>	<u>289,692</u>	<u>63,325</u>	<u>238,925</u>	<u>278,717</u>	<u>39,792</u>
178	39	139	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
350	349	1	-	-	-
338,472	295,096	43,376	-	-	-
-	-	-	-	-	-
-	-	-	463,714	287,103	176,611
-	-	-	-	-	-
-	-	-	4,885	3,332	1,553
-	-	-	-	-	-
-	-	-	-	-	-
<u>339,000</u>	<u>295,484</u>	<u>43,516</u>	<u>468,599</u>	<u>290,435</u>	<u>178,164</u>
<u>\$(112,633)</u>	<u>\$(5,792)</u>	<u>\$ 106,841</u>	<u>\$(229,674)</u>	<u>\$(11,718)</u>	<u>\$ 217,956</u>

(Continued)

**STATE OF HAWAII**

**NONMAJOR SPECIAL REVENUE FUNDS**

**COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**(Amounts in thousands)**

	Human Services			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
<b>REVENUES:</b>						
Taxes:						
Liquid fuel tax:						
Highways	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	-	-	-
Non-taxes:						
Interest and investment income	-	68	68	330	1,117	787
Charges for current services	-	275	275	6,841	4,213	(2,628)
Intergovernmental	293,112	289,297	(3,815)	14,550	8,785	(5,765)
Rentals	-	-	-	2,670	2,123	(547)
Fines, forfeitures and penalties	-	-	-	-	-	-
Licenses and fees	406	105	(301)	-	-	-
Revenues from private sources	-	27	27	-	-	-
Other	-	2,068	2,068	16	11,618	11,602
Total non-taxes	293,518	291,840	(1,678)	24,407	27,856	3,449
Total revenues	293,518	291,840	(1,678)	24,407	27,856	3,449
<b>EXPENDITURES:</b>						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	354,032	284,630	69,402	-	-	-
Lower education	-	-	-	-	-	-
Other education	13,848	12,620	1,228	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	60,091	23,503	36,588
Other	-	-	-	-	-	-
Total expenditures	367,880	297,250	70,630	61,191	23,503	37,688
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>						
	\$ (74,362)	\$ (5,410)	\$ 68,952	\$ (36,784)	\$ 4,353	\$ 41,137

Employment			Regulatory		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
900	956	56	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,000	2,000	-
-	-	-	2,000	2,008	8
<u>900</u>	<u>956</u>	<u>56</u>	<u>4,000</u>	<u>4,008</u>	<u>8</u>
890	1,565	675	861	1,753	892
18,000	13,291	(4,709)	16,505	17,327	822
49,838	40,247	(9,591)	-	-	-
-	-	-	-	-	-
100	650	550	605	1,298	693
-	-	-	8,781	9,460	679
-	-	-	-	-	-
<u>6</u>	<u>2,331</u>	<u>2,325</u>	<u>2,631</u>	<u>2,765</u>	<u>134</u>
<u>68,834</u>	<u>58,084</u>	<u>(10,750)</u>	<u>29,383</u>	<u>32,603</u>	<u>3,220</u>
<u>69,734</u>	<u>59,040</u>	<u>(10,694)</u>	<u>33,383</u>	<u>36,611</u>	<u>3,228</u>
-	-	-	20	-	20
-	-	-	45,818	37,139	8,679
2,229	2,217	12	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
122,827	73,555	49,272	-	-	-
-	-	-	-	-	-
<u>125,056</u>	<u>75,772</u>	<u>49,284</u>	<u>45,838</u>	<u>37,139</u>	<u>8,699</u>
<u>\$(55,322)</u>	<u>\$(16,732)</u>	<u>\$ 38,590</u>	<u>\$(12,455)</u>	<u>\$(528)</u>	<u>\$ 11,927</u>

(Continued)

# STATE OF HAWAII

## NONMAJOR SPECIAL REVENUE FUNDS

### COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Liquid fuel tax:						
Highways	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	1,145	1,532	387
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,145	1,532	387
Non-taxes:						
Interest and investment income	870	1,748	878	1,177	3,042	1,865
Charges for current services	1	-	(1)	40,990	58,603	17,613
Intergovernmental	5,000	21,820	16,820	18,282	21,847	3,565
Rentals	2,660	6,599	3,939	6,095	6,373	278
Fines, forfeitures and penalties	-	-	-	234	227	(7)
Licenses and fees	-	-	-	12,116	14,697	2,581
Revenues from private sources	-	-	-	950	859	(91)
Other	3,240	10,578	7,338	16,553	847,961	831,408
Total non-taxes	11,771	40,745	28,974	96,397	953,609	857,212
Total revenues	11,771	40,745	28,974	97,542	955,141	857,599
EXPENDITURES:						
General government	-	-	-	609,269	574,701	34,568
Public safety	-	-	-	22,056	10,264	11,792
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	336	45	291
Health	-	-	-	-	-	-
Welfare	-	-	-	20,680	16,377	4,303
Lower education	-	-	-	6,500	6,008	492
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	13,444	9,860	3,584
Urban redevelopment and housing	35,809	30,191	5,618	-	-	-
Economic development and assistance	-	-	-	25	20	5
Other	-	-	-	306,779	297,132	9,647
Total expenditures	35,809	30,191	5,618	979,089	914,407	64,682
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES						
	\$ (24,038)	\$ 10,554	\$ 34,592	\$ (881,547)	\$ 40,734	\$ 922,281



All Other			Total Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
\$ -	\$ -	\$ -	\$ 83,168	\$ 85,868	\$ 2,700
1,300	1,658	358	1,300	1,658	358
-	-	-	25,097	26,499	1,402
-	-	-	29,719	33,309	3,590
-	-	-	47,891	46,989	(902)
-	-	-	900	956	56
-	-	-	1,145	1,532	387
-	-	-	14,798	16,915	2,117
-	-	-	1,800	1,741	(59)
-	-	-	1,000	1,000	-
-	-	-	2,000	2,000	-
-	-	-	2,000	2,008	8
<u>1,300</u>	<u>1,658</u>	<u>358</u>	<u>210,818</u>	<u>220,475</u>	<u>9,657</u>
291	553	262	19,702	35,901	16,199
14,349	18,490	4,141	243,265	258,975	15,710
36,816	44,144	7,328	838,100	884,326	46,226
1,912	2,184	272	16,244	21,781	5,537
2,140	2,156	16	5,010	7,785	2,775
395	407	12	25,881	28,749	2,868
-	27	27	43,116	37,570	(5,546)
<u>6,176</u>	<u>16,850</u>	<u>10,674</u>	<u>33,360</u>	<u>988,019</u>	<u>954,659</u>
<u>62,079</u>	<u>84,811</u>	<u>22,732</u>	<u>1,224,678</u>	<u>2,263,106</u>	<u>1,038,428</u>
<u>63,379</u>	<u>86,469</u>	<u>23,090</u>	<u>1,435,496</u>	<u>2,483,581</u>	<u>1,048,085</u>
13,908	10,681	3,227	626,866	588,899	37,967
125,069	62,907	62,162	200,020	114,004	86,016
-	-	-	292,293	221,927	70,366
-	-	-	72,647	50,880	21,767
-	-	-	338,472	295,096	43,376
550	339	211	375,262	301,346	73,916
-	-	-	470,214	293,111	177,103
-	-	-	13,848	12,620	1,228
16,470	11,127	5,343	43,388	31,199	12,189
-	-	-	35,809	30,191	5,618
-	-	-	184,626	98,202	86,424
-	-	-	306,779	297,132	9,647
<u>155,997</u>	<u>85,054</u>	<u>70,943</u>	<u>2,960,224</u>	<u>2,334,607</u>	<u>625,617</u>
\$ (92,618)	\$ 1,415	\$ 94,033	\$ (1,524,728)	\$ 148,974	\$ 1,673,702

(Concluded)

## STATE OF HAWAII

### NONMAJOR SPECIAL REVENUE FUNDS RECONCILIATION OF THE BUDGETARY TO GAAP BASIS JUNE 30, 2007 (Amounts in thousands)

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EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	\$ 148,974
RESERVE FOR ENCUMBRANCES AT YEAR-END*	284,429
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES	(291,057)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS	(56,024)
TRANSFERS	46,220
ACCRUED LIABILITIES	(399,702)
ACCRUED REVENUES	<u>275,342</u>
EXCESS OF REVENUES OVER EXPENDITURES — GAAP basis	<u>\$ 8,182</u>

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

See accompanying independent auditors' report.

**STATE OF HAWAII**

**NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2007  
(Amounts in thousands)**

	<u>Employer- Union Trust Fund</u>	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Fund</u>	<u>Total Nonmajor Proprietary Funds</u>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Note 3)	\$ 56,384	\$ 154,516	\$ 18,084	\$ 228,984
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of \$6,669)	469	2,592	213	3,274
Promissory note receivable (net of allowance for doubtful accounts of \$7,808)	-	17,247	2,078	19,325
Other	-	592	772	1,364
Premium receivable	4,717	-	-	4,717
Due from Special Revenue Fund	-	-	393	393
Prepaid expenses and other assets	9,325	-	-	9,325
Total current assets	<u>70,895</u>	<u>174,947</u>	<u>21,540</u>	<u>267,382</u>
NONCURRENT ASSETS:				
Capital assets - equipment	<u>2,308</u>	<u>55</u>	<u>955</u>	<u>3,318</u>
	2,308	55	955	3,318
Less accumulated depreciation	<u>(2,154)</u>	<u>(38)</u>	<u>(685)</u>	<u>(2,877)</u>
Net capital assets	154	17	270	441
Promissory note receivable	<u>-</u>	<u>171,819</u>	<u>38,801</u>	<u>210,620</u>
Total noncurrent assets	<u>154</u>	<u>171,836</u>	<u>39,071</u>	<u>211,061</u>
TOTAL	<u>\$ 71,049</u>	<u>\$ 346,783</u>	<u>\$ 60,611</u>	<u>\$ 478,443</u>

(Continued)

**STATE OF HAWAII**

**NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF NET ASSETS  
JUNE 30, 2007  
(Amounts in thousands)**

<b>LIABILITIES</b>	<b>Employer- Union Trust Fund</b>	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Fund</b>	<b>Total Nonmajor Proprietary Funds</b>
<b>CURRENT LIABILITIES:</b>				
Vouchers and contracts payable	\$ 194	\$ 76	\$ 128	\$ 398
Other accrued liabilities	80	-	-	80
Accrued vacation, current portion	32	-	-	32
Premiums payable	44,880	-	-	44,880
Total current liabilities	<u>45,186</u>	<u>76</u>	<u>128</u>	<u>45,390</u>
NONCURRENT LIABILITIES - Accrued vacation	<u>45</u>	<u>195</u>	<u>20</u>	<u>260</u>
<b>TOTAL</b>	<u>\$ 45,231</u>	<u>\$ 271</u>	<u>\$ 148</u>	<u>\$ 45,650</u>
<b>NET ASSETS</b>				
INVESTED IN CAPITAL ASSETS — Net of related debt	\$ 154	\$ 17	\$ 270	\$ 441
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	346,495	60,193	406,688
UNRESTRICTED	<u>25,664</u>	<u>-</u>	<u>-</u>	<u>25,664</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 25,818</u>	<u>\$ 346,512</u>	<u>\$ 60,463</u>	<u>\$ 432,793</u>

(Concluded)

# STATE OF HAWAII

**NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND  
NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Amounts in thousands)**

	<u>Employer Union Trust Fund</u>	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Fund</u>	<u>Total Nonmajor Proprietary Funds</u>
OPERATING REVENUES:				
Administrative fees	\$ 1,980	\$ 1,577	\$ 790	\$ 4,347
Other	<u>-</u>	<u>3,443</u>	<u>197</u>	<u>3,640</u>
Total operating revenues	<u>1,980</u>	<u>5,020</u>	<u>987</u>	<u>7,987</u>
OPERATING EXPENSES:				
Personnel services	759	-	-	759
Depreciation	187	10	88	285
Repairs and maintenance	353	-	-	353
General administration	900	1,571	799	3,270
Other	<u>635</u>	<u>-</u>	<u>-</u>	<u>635</u>
Total operating expenses	<u>2,834</u>	<u>1,581</u>	<u>887</u>	<u>5,302</u>
Operating income (loss)	<u>(854)</u>	<u>3,439</u>	<u>100</u>	<u>2,685</u>
NONOPERATING REVENUES (EXPENSES):				
Interest income	2,002	6,476	777	9,255
Other	<u>431</u>	<u>-</u>	<u>-</u>	<u>431</u>
Total nonoperating revenues (expenses)	<u>2,433</u>	<u>6,476</u>	<u>777</u>	<u>9,686</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,579	9,915	877	12,371
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>49,846</u>	<u>23,016</u>	<u>72,862</u>
CHANGE IN NET ASSETS	<u>1,579</u>	<u>59,761</u>	<u>23,893</u>	<u>85,233</u>
NET ASSETS — Beginning — as previously reported	910	-	-	910
ADJUSTMENTS (Note 15)	<u>23,329</u>	<u>286,751</u>	<u>36,570</u>	<u>346,650</u>
NET ASSETS — Beginning — as restated	<u>24,239</u>	<u>286,751</u>	<u>36,570</u>	<u>347,560</u>
NET ASSETS — End of year	<u>\$ 25,818</u>	<u>\$ 346,512</u>	<u>\$ 60,463</u>	<u>\$ 432,793</u>

See accompanying independent auditors' report.

**STATE OF HAWAII**

**NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Amounts in thousands)**

	<b>Employer Union Trust Fund</b>	<b>Water Pollution Control Revolving Fund</b>	<b>Drinking Water Treatment Revolving Fund</b>	<b>Total Nonmajor Proprietary Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from employees	\$ 290,183	\$ -	\$ -	\$ 290,183
Cash paid to suppliers	(1,074)	(143)	(474)	(1,691)
Cash paid to employees	(770)	(1,219)	(199)	(2,188)
Cash paid for premiums	(271,781)	-	-	(271,781)
Cash paid for premium deposit for self-funded plans	(9,308)	-	-	(9,308)
Reserves returned by insurance carriers	148	-	-	148
Interest income from loans	-	3,430	188	3,618
Administrative loan fees	-	1,524	633	2,157
Principal repayments on loans	-	13,119	1,158	14,277
Disbursement of loan proceeds	-	(63,510)	(25,069)	(88,579)
Other cash receipts	(2)	-	-	(2)
	<u>7,396</u>	<u>(46,799)</u>	<u>(23,763)</u>	<u>(63,166)</u>
Net cash provided by (used in) operating activities				
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Net advances to other funds	-	-	(28)	(28)
State capital contributions	-	2,053	1,661	3,714
Proceeds from federal operating grants	-	49,310	21,404	70,714
	<u>-</u>	<u>51,363</u>	<u>23,037</u>	<u>74,400</u>
Net cash provided by noncapital financing activities				
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITY –</b>				
Acquisition and construction of capital assets	-	(10)	(73)	(83)
	<u>-</u>	<u>(10)</u>	<u>(73)</u>	<u>(83)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of investments	(28)	-	-	(28)
Interest from investments	1,814	6,252	746	8,812
	<u>1,786</u>	<u>6,252</u>	<u>746</u>	<u>8,784</u>
Net cash provided by investing activities				
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9,182</b>	<b>10,806</b>	<b>(53)</b>	<b>19,935</b>
<b>CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year</b>	<b>47,202</b>	<b>143,710</b>	<b>18,137</b>	<b>209,049</b>
<b>CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year</b>	<b>\$ 56,384</b>	<b>\$ 154,516</b>	<b>\$ 18,084</b>	<b>\$ 228,984</b>

(Continued)

**STATE OF HAWAII**

**NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Amounts in thousands)**

	<u>Employer Union Trust Fund</u>	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Fund</u>	<u>Total Nonmajor Proprietary Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	\$ (854)	\$ 3,439	\$ 100	\$ 2,685
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	187	10	88	285
Other nonoperating income	-	-	1	1
Reserves provided by operating activities	329	-	-	329
Premium reserves held by insurance companies	13	-	-	13
Decrease (increase) in assets:				
Receivables	(145)	(50,438)	(24,068)	(74,651)
Deposits	(9,308)	-	-	(9,308)
Prepaid expenses	16	-	-	16
Increase (decrease) in liabilities:				
Vouchers and contracts payable	118	-	-	118
Other accrued liabilities	17,040	203	126	17,369
Accrued interest on loans receivable	-	(13)	(10)	(23)
	<u>7,396</u>	<u>(46,799)</u>	<u>(23,763)</u>	<u>(63,166)</u>
Net cash provided by (used in) operating activities	<u>\$ 7,396</u>	<u>\$ (46,799)</u>	<u>\$ (23,763)</u>	<u>\$ (63,166)</u>

See accompanying independent auditors' report.

(Concluded)

# STATE OF HAWAII

## FIDUCIARY FUNDS

### COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS

JUNE 30, 2007

(Amounts in thousands)

	Agency Funds			Total Agency Funds
	Tax Collections	Custodial	Other	
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	\$ 22,073	\$ 66,771	\$ 16,020	\$ 104,864
RECEIVABLES - Accrued Interest	-	-	9,762	9,762
DUE FROM INDIVIDUALS, BUSINESSES, AND COUNTIES	30,286	-	-	30,286
INVESTMENTS:				
Certificates of deposit	-	2,869	2,992	5,861
U.S. government securities	-	38,733	40,390	79,123
Repurchase agreements	-	6,216	6,483	12,699
Total investments	-	47,818	49,865	97,683
TOTAL	\$ 52,359	\$ 114,589	\$ 75,647	\$ 242,595
<b>LIABILITIES</b>				
VOUCHERS PAYABLE	\$ 52,359	\$ 841	\$ 129	\$ 53,329
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	113,748	75,518	189,266
TOTAL	\$ 52,359	\$ 114,589	\$ 75,647	\$ 242,595

See accompanying independent auditors' report.



# STATE OF HAWAII

## FIDUCIARY FUNDS

### COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(Amounts in thousands)

	<u>Balance — July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance — June 30, 2007</u>
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	\$ 2,786	\$ 6,337,437	\$ (6,318,150)	\$ 22,073
Due from individuals, businesses, and counties	13,698	6,354,024	(6,337,436)	30,286
Total assets	<u>\$ 16,484</u>	<u>\$ 12,691,461</u>	<u>\$ (12,655,586)</u>	<u>\$ 52,359</u>
Liabilities — Vouchers payable	<u>\$ 16,484</u>	<u>\$ 52,359</u>	<u>\$ (16,484)</u>	<u>\$ 52,359</u>
CUSTODIAL:				
Assets:				
Cash and cash equivalents	\$ 65,400	\$ 3,329,595	\$ (3,328,225)	\$ 66,770
Receivables	169	-	(169)	-
Investments	38,975	47,819	(38,975)	47,819
Total assets	<u>\$ 104,544</u>	<u>\$ 3,377,414</u>	<u>\$ (3,367,369)</u>	<u>\$ 114,589</u>
Liabilities:				
Vouchers payable	\$ 3,026	\$ 841	\$ (3,026)	\$ 841
Due to individuals, businesses, and counties	101,518	3,329,427	(3,317,197)	113,748
Total liabilities	<u>\$ 104,544</u>	<u>\$ 3,330,268</u>	<u>\$ (3,320,223)</u>	<u>\$ 114,589</u>
OTHER:				
Assets:				
Cash and cash equivalents	\$ 13,452	\$ 41,237	\$ (38,668)	\$ 16,021
Receivables	11,844	9,762	(11,844)	9,762
Investments	33,036	49,864	(33,036)	49,864
Total assets	<u>\$ 58,332</u>	<u>\$ 100,863</u>	<u>\$ (83,548)</u>	<u>\$ 75,647</u>
Liabilities:				
Vouchers payable	\$ 145	\$ 129	\$ (145)	\$ 129
Due to individuals, businesses, and counties	58,187	39,155	(21,824)	75,518
Total liabilities	<u>\$ 58,332</u>	<u>\$ 39,284</u>	<u>\$ (21,969)</u>	<u>\$ 75,647</u>
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	\$ 81,638	\$ 9,708,269	\$ (9,685,043)	\$ 104,864
Receivables	12,013	9,762	(12,013)	9,762
Due from individuals, businesses, and counties	13,698	6,354,024	(6,337,436)	30,286
Investments	72,011	97,683	(72,011)	97,683
Total assets	<u>\$ 179,360</u>	<u>\$ 16,169,738</u>	<u>\$ (16,106,503)</u>	<u>\$ 242,595</u>
Liabilities:				
Vouchers payable	\$ 19,655	\$ 53,329	\$ (19,655)	\$ 53,329
Due to individuals, businesses, and counties	159,705	3,368,582	(3,339,021)	189,266
Total liabilities	<u>\$ 179,360</u>	<u>\$ 3,421,911</u>	<u>\$ (3,358,676)</u>	<u>\$ 242,595</u>

See accompanying independent auditors' report.

***PART III: STATISTICAL SECTION***

## STATISTICAL SECTION

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

### Contents

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

# STATE OF HAWAII

## Net Assets by Component (Accrual Basis of Accounting)

Last Five Fiscal Years  
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2007	2006	2005	2004	2003
<b>Governmental Activities:</b>					
Invested in capital assets, net of related debt	\$ 3,597,174	\$ 3,709,504	\$ 4,318,111	\$ 4,654,693	\$ 5,140,822
Restricted	569,006	1,285,902	1,163,684	1,062,585	1,115,472
Unrestricted (deficit)	1,578,412	1,267,569	858,907	204,363	(92,938)
Total Governmental Activities Net Assets	\$ 5,744,592	\$ 6,262,975	\$ 6,340,702	\$ 5,921,641	\$ 6,163,356
<b>Business-Type Activities:</b>					
Invested in capital assets, net of related debt	\$ 1,278,608	\$ 1,272,249	\$ 1,186,703	\$ 1,129,619	\$ 1,104,914
Restricted	655,055	217,478	189,093	169,816	167,155
Unrestricted	1,304,586	1,150,363	1,089,615	1,073,006	1,064,981
Total Business-Type Activities Net Assets	\$ 3,238,249	\$ 2,640,090	\$ 2,465,411	\$ 2,372,441	\$ 2,337,050
<b>Primary Government:</b>					
Invested in capital assets, net of related debt	\$ 4,875,782	\$ 4,981,753	\$ 5,504,814	\$ 5,784,312	\$ 6,245,736
Restricted	1,224,061	1,503,380	1,352,777	1,232,401	1,282,627
Unrestricted	2,882,998	2,417,932	1,948,522	1,277,369	972,043
Total Primary Government Net Assets	\$ 8,982,841	\$ 8,903,065	\$ 8,806,113	\$ 8,294,082	\$ 8,500,406

See accompanying independent auditors' report.

Note: The 2006 net assets above do not include the effects of restatements

STATE OF HAWAII  
**Changes in Net Assets**  
*(Accrual Basis of Accounting)*

Last Five Fiscal Years  
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2007	2006	2005	2004	2003
<b>Expenses:</b>					
Governmental activities:					
General government	\$ 541,889	\$ 455,008	\$ 494,174	\$ 427,820	\$ 475,517
Public safety	378,409	336,362	248,685	239,932	252,741
Highways	385,267	646,336	282,339	413,215	439,923
Conservation of natural resources	68,745	76,490	79,545	69,693	48,918
Health	833,669	690,265	561,155	520,433	515,492
Welfare	1,773,505	1,709,526	1,615,721	1,547,732	1,418,224
Lower education	2,288,641	2,151,891	1,758,596	1,795,482	1,660,595
Higher education	759,777	678,338	559,379	480,296	537,709
Other education	21,127	19,183	19,667	23,092	38,161
Culture and recreation	92,444	98,121	72,920	64,052	71,738
Urban redevelopment and housing	73,991	87,789	53,077	59,394	42,713
Economic development and assistance	148,164	215,578	214,842	214,206	231,605
Interest expense	118,708	172,673	169,738	179,357	200,864
Total governmental activities expenses	<u>7,484,336</u>	<u>7,337,560</u>	<u>6,129,838</u>	<u>6,034,704</u>	<u>5,934,200</u>
Business-type activities:					
Airports	329,942	292,086	273,949	273,546	291,871
Harbors	76,830	61,408	64,568	54,432	61,448
Unemployment compensation	112,411	105,786	112,329	176,135	204,344
Nonmajor proprietary fund	4,871	2,587	2,883	2,496	789
Total business-type activities expenses	<u>524,054</u>	<u>461,867</u>	<u>453,729</u>	<u>506,609</u>	<u>558,452</u>
Total Primary Government Expenses	<u>\$ 8,008,390</u>	<u>\$ 7,799,427</u>	<u>\$ 6,583,567</u>	<u>\$ 6,541,313</u>	<u>\$ 6,492,652</u>
<b>Program Revenues:</b>					
Governmental activities:					
Charges for services:					
General government	\$ 168,877	\$ 136,113	\$ 146,242	\$ 116,645	\$ 67,746
Health	98,681	132,360	81,607	31,655	30,242
Other	110,942	131,143	127,819	135,159	115,005
Operating grants and contributions	1,820,886	1,726,217	1,667,492	1,687,923	1,586,719
Capital grants and contributions	75,697	279,323	143,183	40,001	69,377
Total governmental activities program revenues	<u>2,275,083</u>	<u>2,405,156</u>	<u>2,166,343</u>	<u>2,011,383</u>	<u>1,869,089</u>
Business-type activities:					
Charges for services:					
Airports	256,843	251,678	241,326	214,878	236,970
Unemployment	138,070	181,146	165,337	190,580	209,450
Others	93,650	86,360	77,501	77,536	70,103
Operating grants and contributions	—	—	—	—	—
Capital grants and contributions	148,597	81,145	35,048	24,253	28,166
Total business-type activities program revenues	<u>637,160</u>	<u>600,329</u>	<u>519,212</u>	<u>507,247</u>	<u>544,689</u>
Total Primary Government Program Revenues	<u>\$ 2,912,243</u>	<u>\$ 3,005,485</u>	<u>\$ 2,685,555</u>	<u>\$ 2,518,630</u>	<u>\$ 2,413,778</u>
<b>Net (Expense) Revenue:</b>					
Governmental activities	\$ (5,209,253)	\$ (4,932,404)	\$ (3,963,495)	\$ (4,023,321)	\$ (4,065,111)
Business-type activities	113,106	138,452	65,483	638	(13,763)
Total Primary Government Net Expenses	<u>\$ (5,096,147)</u>	<u>\$ (4,793,952)</u>	<u>\$ (3,898,012)</u>	<u>\$ (4,022,683)</u>	<u>\$ (4,078,874)</u>
<b>General Revenues and Other Changes in Net Assets:</b>					
Governmental activities:					
Taxes:					
General excise tax	\$ 2,659,339	\$ 2,359,316	\$ 2,145,603	\$ 1,899,777	\$ 1,777,299
Net income tax – corporations and individuals	1,620,452	1,675,131	1,490,964	1,247,141	1,057,088
Public service companies tax	124,017	120,678	108,686	99,505	114,115
Transient accommodations tax	7,382	124,133	110,723	101,580	92,018
Tobacco and liquor taxes	131,813	134,216	128,982	120,637	113,483
Liquid fuel tax	87,179	84,719	82,733	81,401	77,174
Tax on premiums of insurance companies	96,385	89,778	84,822	79,477	74,335
Vehicle weight and registration tax	59,422	56,101	54,057	46,567	46,259
Rental motor/tour vehicle surcharge tax	49,479	45,885	41,886	41,414	39,472
Franchise tax	19,012	18,324	38,520	28,384	50,155
Others	27,523	46,850	34,191	41,903	60,724
Interest and investment income	102,295	99,546	64,236	—	—
Payment from the State	—	—	—	—	8,344
Other	—	—	(2,847)	(6,180)	(517)
Total governmental activities	<u>4,984,298</u>	<u>4,854,677</u>	<u>4,382,556</u>	<u>3,781,606</u>	<u>3,509,949</u>
Business-type activities:					
Interest and investment income	—	40,122	27,784	24,759	33,695
Other	82,046	—	(297)	(2,478)	2,103
Total business-type activities	<u>82,046</u>	<u>40,122</u>	<u>27,487</u>	<u>22,281</u>	<u>35,798</u>
Total Primary Government	<u>\$ 5,066,344</u>	<u>\$ 4,894,799</u>	<u>\$ 4,410,043</u>	<u>\$ 3,803,887</u>	<u>\$ 3,545,747</u>
<b>Changes in Net Assets:</b>					
Governmental activities	\$ (224,955)	\$ (77,727)	\$ 419,061	\$ (241,715)	\$ (555,162)
Business-type activities	195,152	178,574	92,970	21,919	22,035
Total Primary Government	<u>\$ (29,803)</u>	<u>\$ 100,847</u>	<u>\$ 512,031</u>	<u>\$ (219,796)</u>	<u>\$ (533,127)</u>

See accompanying independent auditors' report.

STATE OF HAWAII

**Fund Balances, Governmental Funds**

*(Modified Accrual Basis of Accounting)*

Last Five Fiscal Years

(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2007	2006	2005	2004	2003
<b>General Fund:</b>					
Reserved	\$ 414,899	\$ 249,581	\$ 219,800	\$ 217,757	\$ 212,362
Unreserved	881,311	1,013,988	745,770	401,340	290,466
Total General Fund	<u>\$ 1,296,210</u>	<u>\$ 1,263,569</u>	<u>\$ 965,570</u>	<u>\$ 619,097</u>	<u>\$ 502,828</u>
<b>All Other Governmental Funds:</b>					
Reserved	\$ 1,643,345	\$ 1,851,194	\$ 1,552,524	\$ 1,512,966	\$ 1,401,217
Unreserved, reported in:					
Capital Projects Fund	(1,111,924)	(878,164)	(615,763)	(797,930)	(828,872)
Special Revenue Funds	556,963	637,664	637,585	589,280	571,423
Total All Other Governmental Funds	<u>\$ 1,088,384</u>	<u>\$ 1,610,694</u>	<u>\$ 1,574,346</u>	<u>\$ 1,304,316</u>	<u>\$ 1,143,768</u>

See accompanying independent auditors' report.

Note: The 2006 net assets above do not include the effects of restatements

STATE OF HAWAII

**Changes in Fund Balances, Governmental Funds**  
*(Modified Accrual Basis of Accounting)*

Last Five Fiscal Years  
 (Amounts in thousands)

	<b>For the Fiscal Year Ended June 30,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Revenues:</b>					
Taxes:					
General excise tax	\$ 2,632,485	\$ 2,359,316	\$ 2,145,603	\$ 1,900,077	\$ 1,780,199
Net income tax – corporations and individuals	1,618,570	1,664,331	1,484,664	1,254,341	1,050,688
Public service companies tax	124,017	120,678	108,686	99,505	114,115
Transient accommodations tax	7,382	124,133	110,723	101,580	92,018
Tobacco and liquor taxes	131,813	134,216	128,982	120,637	113,483
Liquid fuel tax	87,179	84,719	82,733	81,401	77,174
Tax on premiums of insurance companies	96,385	89,778	84,822	79,477	74,335
Vehicle weight and registration tax	59,422	56,101	54,057	46,567	46,259
Rental motor/tour vehicle surcharge tax	49,479	48,092	43,950	41,414	39,472
Franchise tax	2,000	18,324	38,520	—	—
Other	44,535	46,850	34,191	28,384	50,165
<b>Total taxes</b>	<b>4,853,267</b>	<b>4,746,538</b>	<b>4,316,931</b>	<b>3,753,383</b>	<b>3,437,908</b>
Interest and investment income	122,606	82,013	58,236	41,903	60,724
Charges for current services	318,235	343,424	298,670	229,142	214,980
Intergovernmental	1,727,895	1,601,005	1,574,899	1,528,280	1,362,489
Rentals	21,639	32,493	28,732	30,893	27,854
Fines, forfeitures, and penalties	28,488	26,827	27,482	30,453	24,434
Licenses and fees	30,837	29,364	27,297	25,643	27,055
Revenues from private sources	39,401	39,647	41,836	42,264	48,539
Other	127,444	128,283	101,387	108,287	165,725
<b>Total revenues</b>	<b>7,269,812</b>	<b>7,029,594</b>	<b>6,475,470</b>	<b>5,790,248</b>	<b>5,369,708</b>
<b>Expenditures:</b>					
Current:					
General government	458,236	493,301	508,154	450,975	429,448
Public safety	376,032	322,578	291,369	265,432	256,740
Highways	337,862	267,213	301,784	222,672	254,648
Conservation of natural resources	107,578	86,628	74,188	64,774	65,787
Health	832,333	685,679	564,807	518,667	512,864
Welfare	1,770,707	1,709,810	1,614,559	1,545,322	1,418,056
Lower education	2,305,280	1,984,129	1,798,208	1,758,424	1,744,625
Higher education	759,777	678,338	559,379	480,296	537,709
Other education	20,122	19,183	19,667	22,807	38,160
Culture and recreation	92,574	87,478	73,774	66,884	70,549
Urban redevelopment and housing	170,614	60,725	52,698	55,077	17,265
Economic development and assistance	147,146	215,559	214,377	215,133	231,402
Other	7,248	4,634	4,784	4,195	—
Debt service					
Principal	271,010	247,935	128,378	113,629	211,575
Interest and others	231,723	199,642	193,570	187,886	182,748
<b>Total Expenditures</b>	<b>7,888,242</b>	<b>7,062,832</b>	<b>6,399,696</b>	<b>5,972,173</b>	<b>5,971,576</b>
Excess (Deficiency) of Revenues Over Expenditures	(618,430)	(33,238)	75,774	(181,925)	(601,868)
<b>Other Financing Sources (Uses):</b>					
Proceeds from borrowing and refunding	395,303	367,585	1,491,445	690,009	319,771
Payments to escrow agent	—	—	(947,869)	(215,510)	—
Transfers in	796,195	499,655	495,098	351,822	572,882
Transfers out	(796,195)	(499,655)	(495,098)	(351,822)	(603,399)
Other	—	—	(2,847)	(15,757)	8,344
<b>Total Other Financing Sources</b>	<b>395,303</b>	<b>367,585</b>	<b>540,729</b>	<b>458,742</b>	<b>297,598</b>
<b>Net Change in Fund Balances</b>	<b>\$ (223,127)</b>	<b>\$ 334,347</b>	<b>\$ 616,503</b>	<b>\$ 276,817</b>	<b>\$ (304,270)</b>
Debt service as a percentage of noncapital expenditures	6.9%	7.3%	5.7%	5.7%	7.8%

See accompanying independent auditors' report.

# STATE OF HAWAII

## Personal Income by Industry

Last Ten Fiscal Years  
(Amounts in millions)

	For the Fiscal Year Ended June 30,									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Farm Earnings</b>	\$ N/A	\$ N/A	\$ 222	\$ 217	\$ 222	\$ 220	\$ 215	\$ 212	\$ 252	\$ 221
<b>Nonfarm Wage and Salary Workers:</b>										
Goods-producing industries:										
Forestry, fishing related activities, and other	N/A	N/A	54	56	66	68	68	162	152	146
Mining	N/A	N/A	53	46	37	31	36	34	31	28
Construction	N/A	N/A	2,672	2,236	2,067	1,869	1,690	1,568	1,402	1,391
Manufacturing – durable and nondurable goods	N/A	N/A	904	860	753	745	787	903	871	847
Subtotal Goods-Producing Industries	N/A	N/A	3,683	3,198	2,923	2,713	2,581	2,667	2,456	2,412
Service-producing industries										
Transportation, communication, and utilities	N/A	N/A	1,705	1,571	1,473	1,416	1,463	2,109	1,977	1,920
Trade	N/A	N/A	3,357	3,177	2,983	2,809	2,726	3,807	3,732	3,552
Information	N/A	N/A	717	712	650	669	709	0	0	0
Finance, insurance, and real estate	N/A	N/A	2,314	2,160	1,957	1,884	1,704	2,320	2,092	2,011
Service	N/A	N/A	12,269	11,599	10,663	9,945	9,477	7,694	7,127	6,940
State and local government	N/A	N/A	4,327	4,069	3,862	3,664	3,267	3,078	3,157	3,066
Federal government	N/A	N/A	6,719	6,283	5,716	5,282	4,820	4,593	4,340	4,291
Subtotal Service-Producing Industries	N/A	N/A	31,408	29,571	27,304	25,669	24,166	23,601	22,425	21,780
Total Nonfarm Wage and Salary Workers	N/A	N/A	35,091	32,769	30,227	28,382	26,747	26,268	24,881	24,192
<b>Other(1)</b>	N/A	N/A	8,641	8,198	7,399	7,765	8,167	7,973	7,512	7,344
<b>Total Personal Income</b>	\$ —	\$ —	\$ 43,954	\$ 41,184	\$ 37,848	\$ 36,367	\$ 35,129	\$ 34,453	\$ 32,645	\$ 31,757
Total direct income tax rate(2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

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

Source: State of Hawaii, Data Book 2006.

N/A Not available.

See accompanying independent auditors' report.



STATE OF HAWAII

**Personal Income Tax Rates**

Last Five Calendar Years

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<b>Top Income Tax Rate is Applied to Taxable Income in Excess of</b>							
<b>Year</b>	<b>Top Rate</b>	<b>Single</b>	<b>Top Rate</b>	<b>Married Filing Jointly</b>	<b>Top Rate</b>	<b>Head of Household</b>	
2006	8.25% + \$2,678	\$ 40,000	8.25% + \$5,356	\$ 80,000	8.25% + \$4,017	\$ 60,000	
2005	8.25% + \$2,678	40,000	8.25% + \$5,356	80,000	8.25% + \$4,017	60,000	
2004	8.25% + \$2,678	40,000	8.25% + \$5,356	80,000	8.25% + \$4,017	60,000	
2003	8.25% + \$2,678	40,000	8.25% + \$5,356	80,000	8.25% + \$4,017	60,000	
2002	8.25% + \$2,678	40,000	8.25% + \$5,356	80,000	8.25% + \$4,017	60,000	

Source: State of Hawaii, Department of Taxation.

See accompanying independent auditors' report.

STATE OF HAWAII

**Personal Income Tax Filers and Liability by Income Level**

Calendar Years 2004 and 1997

<b>2004</b>				
<b>Income Level(1)</b>	<b>Number of Filers(2)</b>	<b>Percentage of Total</b>	<b>Personal Income Tax Liability</b>	<b>Percentage of Total</b>
Under \$5,000	111,130	18.8 %	\$ 946,805	0.1 %
\$5,000 – \$10,000	59,764	10.1	6,567,476	0.5
\$10,000 – \$20,000	94,202	16.0	39,998,661	3.2
\$20,000 – \$30,000	78,753	13.4	74,807,195	6.0
\$30,000 – \$40,000	58,670	9.9	87,470,721	7.1
\$40,000 – \$50,000	40,137	6.8	80,504,407	6.5
\$50,000 – \$75,000	65,152	11.1	186,017,438	15.0
\$75,000 – \$100,000	36,322	6.2	155,355,256	12.5
\$100,000 and over	45,475	7.7	609,937,855	49.1
	<u>589,605</u>	<u>100.0 %</u>	<u>\$ 1,241,605,814</u>	<u>100.0 %</u>

<b>1997</b>				
<b>Income Level(1)</b>	<b>Number of Filers(2)</b>	<b>Percentage of Total</b>	<b>Personal Income Tax Liability</b>	<b>Percentage of Total</b>
Under \$5,000	120,410	21.9 %	\$ 2,638,482	0.3 %
\$5,000 – \$10,000	62,542	11.4	11,655,521	1.1
\$10,000 – \$20,000	93,305	17.0	58,512,980	5.7
\$20,000 – \$30,000	79,644	14.5	105,102,820	10.2
\$30,000 – \$40,000	50,211	9.1	98,885,467	9.6
\$40,000 – \$50,000	37,406	6.8	95,962,813	9.3
\$50,000 – \$75,000	57,255	10.4	204,194,819	19.8
\$75,000 – \$100,000	25,738	4.7	137,055,563	13.2
\$100,000 and over	23,228	4.2	318,835,007	30.8
	<u>549,739</u>	<u>100.0 %</u>	<u>\$ 1,032,843,472</u>	<u>100.0 %</u>

(1) Income Level = Hawaii Adjusted Gross Income.

(2) Number of Filers = All resident returns and taxable nonresident returns filed.

Source: State of Hawaii, Department of Taxation.

Note: Calendar year 2004 is the most recent year available.

See accompanying independent auditors' report.

STATE OF HAWAII

**Taxable Sales by Industry**

Last Five Fiscal Years  
(Amounts in millions)

	<b>For the Fiscal Year Ended June 30,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Taxable Sales by Activities:</b>					
Retailing	\$ 24,245	\$ 24,102	\$ 22,264	\$ 20,007	\$ 18,807
Services	10,335	9,753	8,494	7,729	7,113
Contracting	7,595	6,370	5,414	4,544	4,598
Hotel rentals	3,140	2,989	2,644	2,444	2,352
All other rentals	5,196	4,957	4,495	4,284	4,062
All other (4%)	5,148	4,885	4,263	3,764	3,452
Subtotal	<u>55,659</u>	<u>53,056</u>	<u>47,574</u>	<u>42,772</u>	<u>40,384</u>
Sugar processing	-	2	1	2	3
Pineapple canning	-	5	3	5	3
Producing	435	528	568	533	529
Manufacturing	690	656	665	651	627
Wholesaling	12,835	11,978	11,424	10,426	9,617
Use (1/2%)	7,589	6,571	5,940	6,020	5,648
Services (Intermediary)	560	521	349	327	338
Insurance solicitors	522	455	493	901	797
Subtotal	<u>22,631</u>	<u>20,716</u>	<u>19,443</u>	<u>18,865</u>	<u>17,562</u>
Total All Activities	<u>\$ 78,290</u>	<u>\$ 73,772</u>	<u>\$ 67,017</u>	<u>\$ 61,637</u>	<u>\$ 57,946</u>

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

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

Source: State of Hawaii, Department of Taxation.

See accompanying independent auditors' report.

# STATE OF HAWAII

## Sales Tax Revenue Payers by Industry

Last Five Fiscal Years  
(Amounts in thousands)

	2007		2006		2005		2004		2003	
	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	\$ 969,783	37.9 %	\$ 964,080	40.9 %	\$ 890,566	41.7 %	\$ 800,287	42.1 %	\$ 752,268	41.9 %
Services	413,415	16.2	390,131	16.6	339,775	15.9	309,166	16.3	284,526	15.9
Contracting	303,806	11.9	254,793	10.8	216,541	10.1	181,763	9.6	183,913	10.2
Theater, amusement, etc.	12,464	0.5	11,860	0.5	11,569	0.5	10,993	0.6	10,394	0.6
Interest	11,793	0.5	8,236	0.4	5,716	0.3	5,849	0.3	6,502	0.4
Commissions	46,258	1.8	49,364	2.1	43,743	2.0	39,420	2.1	33,948	1.9
Hotel rentals	125,598	4.9	119,571	5.1	105,749	4.9	97,764	5.1	94,085	5.2
All other rentals	207,855	8.1	198,264	8.4	179,788	8.4	171,375	9.0	162,492	9.1
Use (4%)	36,238	1.4	37,342	1.6	33,564	1.6	25,615	1.3	24,202	1.3
All other (4%)	99,176	3.9	88,562	3.8	75,918	3.6	68,682	3.6	63,022	3.5
Sugar processing	—	—	9	—	5	—	9	—	14	—
Pineapple canning	—	—	23	—	15	—	25	—	18	—
Producing	2,175	0.1	2,728	0.1	2,839	0.1	2,664	0.1	2,646	0.1
Manufacturing	3,450	0.1	3,372	0.1	3,323	0.2	3,257	0.2	3,133	0.2
Wholesaling	64,177	2.5	62,051	2.6	57,122	2.7	52,130	2.7	48,083	2.7
Use (1/2%)	37,943	1.5	33,924	1.4	29,702	1.4	30,102	1.6	28,242	1.6
Services (Intermediary)	2,802	0.1	2,751	0.1	1,746	0.1	1,633	0.1	1,689	0.1
Insurance solicitors	783	—	690	—	739	—	1,351	0.1	1,196	0.1
Unallocated collections	218,044	8.6	127,564	5.5	138,183	6.5	98,292	5.2	92,326	5.2
<b>Total</b>	<b>\$ 2,555,760</b>	<b>100.0 %</b>	<b>\$ 2,355,315</b>	<b>100.0 %</b>	<b>\$ 2,136,603</b>	<b>100.0 %</b>	<b>\$ 1,900,377</b>	<b>100.0 %</b>	<b>\$ 1,792,699</b>	<b>100.0 %</b>

Source: State of Hawaii, Department of Taxation.

Note: Information for number of filers is not available.

See accompanying independent auditors' report.

STATE OF HAWAII

**Ratios of Outstanding Debt by Type**

Last Five Fiscal Years  
(Amounts in thousands)

	<b>For the Fiscal Year Ended June 30,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 4,079,714	\$ 4,322,964	\$ 4,256,633	\$ 3,954,192	\$ 3,634,738
Revenue bonds	283,310	306,255	319,305	276,680	288,470
Capital leases	79,090	58,035	61,340	64,485	67,505
Total Governmental Activities	<u>4,442,114</u>	<u>4,687,254</u>	<u>4,637,278</u>	<u>4,295,357</u>	<u>3,990,713</u>
<b>Business-Type Activities:</b>					
General obligation bonds	37	137	167	196	225
Revenue bonds	939,349	883,823	927,695	1,017,445	1,076,100
Total Business-Type Activities	<u>939,386</u>	<u>883,960</u>	<u>927,862</u>	<u>1,017,641</u>	<u>1,076,325</u>
Total Primary Government	<u>\$ 5,381,500</u>	<u>\$ 5,571,214</u>	<u>\$ 5,565,140</u>	<u>\$ 5,312,998</u>	<u>\$ 5,067,038</u>
<b>Hawaii Total Personal Income</b>	\$ 50,369,000	\$ 47,340,000	\$ 43,953,000	\$ 41,178,000	\$ 37,803,000
<b>Debt as a Percentage of Personal Income</b>	10.7 %	11.8 %	12.7 %	12.9 %	13.4 %
<b>Hawaii Population</b>	1,299	1,285	1,273	1,262	1,249
<b>Amount of Debt Per Capita</b>	\$ 4,142	\$ 4,336	\$ 4,372	\$ 4,210	\$ 4,057

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

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

See accompanying independent auditors' report.

STATE OF HAWAII

**Ratios of Net General  
Bonded Debt Outstanding**

Last Five Fiscal Years

(Amounts in thousands except ratio data)

<b>Fiscal Year</b>	<b>Taxable Sales (1)</b>	<b>Population (2)</b>	<b>General Obligation Bonded Debt (3)(4)</b>	<b>Less Debt Service 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>
2007	\$ 78,290,000	1,299	\$ 4,079,714	\$ 21,704	\$ 4,058,010	5.2 %	\$ 3,124
2006	73,772,000	1,285	4,322,964	7,226	4,315,738	5.9	3,359
2005	67,017,000	1,273	4,256,633	184	4,256,449	6.4	3,344
2004	61,637,000	1,262	3,954,192	72	3,954,120	6.4	3,133
2003	57,946,000	1,249	3,634,738	148	3,634,590	6.3	2,910

(1) Source: State of Hawaii, Department of Taxation.

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

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

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

See accompanying independent auditors' report.

STATE OF HAWAII

**Legal Debt Margin Information**

Last Five Fiscal Years

(Amounts in thousands)

	<b>For the Fiscal Year Ended June 30,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Average General Fund revenues of the three preceding fiscal years	\$ 4,832,700	\$ 4,423,191	\$ 4,043,868	\$ 3,455,569	\$ 3,530,254
Constitutional debt limit percentage	18.50 %	18.50 %	18.50 %	18.50 %	18.50 %
Constitutional debt limit for total principal and interest payable in a current or future year	894,050	818,290	748,116	639,280	653,097
Less total principal and interest payable on outstanding general obligation bonds in highest debt service year (fiscal year ending June 30, 2009)	(550,696)	(533,810)	(516,641)	(527,561)	(516,753)
Legal debt margin	\$ 343,354	\$ 284,480	\$ 231,475	\$ 111,719	\$ 136,344
Legal debt margin as a percentage of the debt limit	38.4 %	34.8 %	30.9 %	17.5 %	20.9 %

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

See accompanying independent auditors' report.

# STATE OF HAWAII

## Pledge Revenue Coverage

Last Five Fiscal Years  
(Amounts in thousands)

	For the Fiscal Year Ended June 30,				
	2007	2006	2005	2004	2003
<b>Revenue Bonds – Airports</b>					
Gross revenue(1)	\$ 286,838	\$ 267,927	\$ 245,464	\$ 234,287	\$ 265,714
Less: Operating expenses(2)	211,119	171,990	150,332	151,717	95,132
Net available revenue	75,719	95,937	95,132	82,570	170,582
Debt service requirements:					
Principal(3)	32,250	30,565	25,250	22,365	19,550
Interest(4)	10,868	11,557	21,516	18,814	15,536
Total Debt Service	43,118	42,122	46,766	41,179	35,086
Coverage(5)	176 %	228 %	203 %	201 %	486 %
<b>Revenue Bonds – Harbors:</b>					
Gross revenue(6)	\$ 97,414	\$ 89,402	\$ 79,319	\$ 78,433	\$ 77,571
Less: Operating expenses(7)	42,967	35,140	36,053	26,809	35,214
Net available revenue	54,447	54,262	43,266	51,624	42,357
Debt service requirements	25,364	19,265	19,224	21,317	19,652
Coverage(8)	215 %	282 %	225 %	242 %	216 %
<b>Revenue Bonds – Highways:</b>					
Revenue	\$ 210,989	\$ 204,287	\$ 190,438	\$ 185,841	\$ 184,972
Less: Operating expenses	172,167	172,633	121,776	119,377	124,021
Net available revenue	38,822	31,654	68,662	66,464	60,951
Debt service:					
Principal	14,885	14,295	11,800	11,385	10,635
Interest	12,988	14,096	13,043	13,150	14,140
Total Debt Service	27,873	28,391	24,843	24,535	24,775
Coverage(9)	139 %	111 %	276 %	271 %	246 %
<b>Revenue Bonds – Department of Hawaiian Home Lands:</b>					
Revenue	\$ -	\$ 10,289	\$ 8,611	\$ 7,852	\$ 7,383
Less: Operating expenses	-	6,321	5,601	4,977	4,436
Net available revenue	-	3,968	3,010	2,875	2,947
Debt service:					
Principal	-	1,250	1,200	1,155	1,115
Interest	-	391	440	487	531
Total Debt Service	-	1,641	1,640	1,642	1,646
Coverage(10)	-	242 %	184 %	175 %	179 %

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

Coverage equals net available revenue divided by debt service.

Coverage equals net available revenue divided by debt service.

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

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

See accompanying independent auditors' report.



# STATE OF HAWAII

## Demographic and Economic Statistics

### Last Ten Fiscal Years

Source	For the Fiscal Year Ended June 30,									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Population (in thousands):</b>										
State	1,299	1,285	1,273	1,262	1,249	1,241	1,225	1,212	1,210	1,215
Percentage change	1.09 %	0.93 %	0.86 %	1.03 %	0.64 %	1.29 %	1.06 %	0.17 %	(0.41)%	0.25 %
National	N/A	299,398	296,507	293,638	290,796	288,126	285,226	282,217	N/A	N/A
Percentage change	N/A	0.97 %	0.97 %	0.97 %	0.92 %	1.01 %	1.05%	N/A	N/A	N/A
<b>Total Personal Income (in millions):</b>										
State	50,369	47,340	43,954	41,178	37,803	36,370	35,126	34,451	32,646	31,757
Percentage change	6.01 %	7.15 %	6.74 %	8.20 %	3.79 %	3.42 %	1.92 %	5.24 %	2.72 %	2.38%
National	N/A	N/A	10,224,761	9,717,173	9,150,908	8,875,871	8,716,992	8,422,074	7,796,137	7,415,709
Percentage change	N/A	N/A	4.96 %	5.83 %	3.01 %	1.79 %	3.38 %	7.43 %	4.88 %	6.86%
<b>Per Capita Personal Income (in thousands):</b>										
State	N/A	N/A	34,468	32,626	30,286	29,464	28,748	28,422	26,973	26,132
Percentage change	N/A	N/A	5.34 %	7.17 %	2.71 %	2.43 %	1.13 %	5.10 %	3.12 %	2.09 %
National	N/A	N/A	34,495	33,090	31,463	30,810	30,574	29,845	27,939	26,883
Percentage change	N/A	N/A	4.07 %	4.92 %	2.08 %	0.77 %	2.38 %	6.39 %	3.78 %	5.76 %
<b>Resident Civilian Labor Force and Employment:</b>										
Civilian labor force employed	634,185	628,279	614,292	597,154	588,879	584,350	589,221	584,858	576,321	570,154
Unemployed	16,090	14,046	17,000	19,804	23,679	24,588	26,038	24,154	30,350	34,150
Unemployment rate	2.50 %	2.40 %	2.70 %	3.20 %	3.90 %	4.00 %	4.20 %	4.00 %	5.00 %	5.70 %

Source: State of Hawaii, Data Book 2005.

U.S. Census Bureau and State of Hawaii, Department of Labor and Industrial Relations.

Notes: Population estimates have been restated to most current State of Hawaii, Data Book 2005.

National population for 2005 obtained from U.S. Census Bureau.

State personal income for 2005 is preliminary amount.

Unemployment data from 1997 to 2005 reflects new modeling approach (redesign) and reestimation.

2000-2005 have been benchmarked. Reflects revised population controls and model reestimation through 2005.

N/A Not available.

See accompanying independent auditors' report.

STATE OF HAWAII

**Ten Largest Private Sector Employers**

Last Three Fiscal Years

Employer	2007		2006		2005	
	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment	Employees	Percentage of Total State Employment
Aloha Airgroup, Inc.	3,465	0.5 %	3,375	0.5 %	3,701	0.6 %
Hawaii Pacific Health	5,200	0.8	5,500	0.9	5,449	0.9
Hawaiian Airlines	3,587	0.6	3,300	0.5	3,300	0.5
Hawaiian Electric Industries, Inc.	3,447	0.5	3,383	0.5	3,354	0.5
Kaiser Permanente Medical Care Program	4,017	0.6	3,969	0.6	3,918	0.6
Kyo-ya Co., Ltd.	3,764	0.6	3,807	0.6	3,574	0.6
Marriott International	—	—	5,835	0.9	5,698	0.9
McDonald's Restaurants of Hawaii	3,775	0.6	3,775	0.6	3,750	0.6
NCL America	4,461	0.7	3,515	0.6	—	—
The Queen's Health System	4,834	0.8	4,351	0.7	3,673	0.6
Starwood Hotels and Resort Hawaii	2,382	0.4	2,377	0.4	3,500	0.9

Source: Hawaii Business, August 2005, August 2006, and August 2007.  
 State of Hawaii Department of Business, Economic Development and Tourism.  
 State Department of Labor and Industrial Relations.

Notes: Total Annual Average Employment for Hawaii for fiscal years 2007, 2006 and 2005 totaled 634,200; 631,450; and 616,850, respectively.

Listed alphabetically.

Aloha Airgroup, Inc. filed for bankruptcy in April 2008

STATE OF HAWAII

**State Employees by Function**

Last Four Fiscal Years

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

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

See accompanying independent auditors' report.

# STATE OF HAWAII

## Operating Indicators by Function

Last Five Fiscal Years

	For the Fiscal Year Ended June 30,				
	2007	2006	2005	2004	2003
<b>General Government</b>					
Tax Commission:					
Total individual net income returns	N/A	602,375	595,035	579,252	583,417
Number of individual net income returns filed electronically	N/A	196,959	156,199	135,922	113,559
Percentage of individual net income returns transmitted electronically	N/A	32.70 %	27.63 %	24.06 %	19.81 %
<b>Public Safety</b>					
Inmate population:					
In-state facilities	6,045	6,251	6,092	5,958	5,540
Out-of-state facilities	2,009	1,844	1,730	1,694	1,295
Total	8,054	8,095	7,822	7,652	6,835
<b>Conservation and Natural Resources</b>					
Department of Parks and Recreation:					
Number of state-owned parks	53	53	N/A	N/A	N/A
<b>Health</b>					
Environmental health:					
Air quality sites monitored	16	16	N/A	N/A	N/A
Water quality stations	363	363	N/A	N/A	N/A
Mental health:					
Adult consumers served	N/A	12,245	10,136	7,543	N/A
Individuals with developmental disabilities served	N/A	2,300	3,302	2,965	N/A
Revolving loan funds	N/A	65	53	49	N/A
<b>Welfare</b>					
Temporary assistance to needy families recipients/temporary assistance to other needy families recipients (TANF/TAONF):					
Families per month average	N/A	9,837	10,642	12,915	14,362
Average time on assistance	N/A	15.0	15.0	15.4	16.0
Monthly benefits paid for the month of July (in millions)	N/A	5.09	5.96	6.26	6.76
General assistance:					
Individuals per month	N/A	3,917	3,994	4,112	4,432
Food stamp program:					
Number of persons participating	N/A	88,967	95,032	99,126	100,569
Number of households participating	N/A	46,285	47,795	48,569	48,815
Benefits issued (in millions)	N/A	\$ 12.49	\$ 12.98	\$ 12.77	\$ 12.90
Medicaid programs:					
MedQuest enrollment (in thousands)	202,126	203,345	200,534	190,381	N/A
<b>Lower Education</b>					
Number of schools	N/A	285	285	284	283
Number of students	N/A	181,406	181,897	182,434	182,798
Staff:					
Classroom teachers	N/A	11,226.0	11,146.0	11,128.5	10,973.4
Librarians	N/A	292.0	291.0	282.0	281.5
Counselors	N/A	671.0	657.0	647.5	648.5
Administrators	N/A	705.5	701.4	692.4	692.4
Other support staff	N/A	8,164.0	7,735.3	8,361.4	8,107.1
Total	N/A	21,058.5	20,530.7	21,111.8	20,702.9

STATE OF HAWAII

**Operating Indicators by Function (Cont'd)**

Last Five Fiscal Years

	<b>For the Fiscal Year Ended June 30,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b><u>Higher Education</u></b>					
Enrollment:					
Number of credit students	N/A	49,990	50,157	50,569	50,317
Degrees earned:					
Certificates	N/A	340	324	300	336
Associate degrees	N/A	2,295	2,346	2,296	2,375
Advanced professional certificates	N/A	2	1	—	—
Bachelor's degrees	N/A	3,639	3,294	3,273	3,010
Professional diploma	N/A	139	119	144	81
Master's degrees	N/A	1,181	1,143	978	1,018
Doctor's degrees	N/A	147	149	109	128
First professional	N/A	174	161	146	128
Other	N/A	—	—	—	—
Total	<u>N/A</u>	<u>7,917</u>	<u>7,537</u>	<u>7,246</u>	<u>7,076</u>
Degrees by campus/college:					
University of Hawaii at Manoa	N/A	4,401	4,175	3,859	3,696
University of Hawaii at Hilo	N/A	614	497	579	502
University of Hawaii at West Oahu	N/A	265	194	212	167
Hawaii Community College	N/A	339	315	317	308
Honolulu Community College	N/A	515	561	570	687
Kapiolani Community College	N/A	641	731	649	608
Kauai Community College	N/A	114	165	89	123
Leeward Community College	N/A	533	482	534	559
Maui Community College	N/A	360	306	308	293
Windward Community College	N/A	135	111	129	133
Total	<u>N/A</u>	<u>7,917</u>	<u>7,537</u>	<u>7,246</u>	<u>7,076</u>

N/A Not available

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

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

See accompanying independent auditors' report.

STATE OF HAWAII

Capital Assets Statistics by Function

Last Three Fiscal Years

	For the Fiscal Year Ended June 30,				For the Fiscal Year Ended June 30,		
	2007	2006	2005		2007	2006	2005
<b>General Government</b>				<b>Health</b>			
<b>Department of Accounting and General Services:</b>				<b>Department of Health:</b>			
Buildings	71	10	10	Buildings	75	69	68
Vehicles	553	581	701	Vehicles	292	283	290
<b>Department of the Attorney General:</b>				<b>Welfare</b>			
Buildings	5	5	5	<b>Department of Human Services:</b>			
Vehicles	1	1	1	Buildings	18	18	18
<b>The Judiciary:</b>				Vehicles	126	134	132
Buildings	17	17	17	<b>Lower Education</b>			
Vehicles	14	15	43	<b>Department of Education:</b>			
<b>Other Departments:</b>				Buildings	8	8	7
Buildings	23	21	21	<b>Other Education</b>			
Vehicles	6	6	6	<b>Department of Education - Libraries:</b>			
<b>Public Safety</b>				Buildings	34	34	34
<b>Department of Public Safety:</b>				Vehicles	31	33	32
Buildings and Correction Facilities	71	71	72	<b>Urban Redevelopment and Housing</b>			
Vehicles	245	241	228	<b>Department of Hawaiian Home Lands:</b>			
<b>Department of Defense:</b>				Buildings	18	15	12
Buildings	100	98	93	Vehicles	30	29	26
Vehicles	84	77	80	<b>Economic Development and Assistance</b>			
<b>Department of Commerce and Consumer Affairs:</b>				<b>Department of Business, Economic Development and Tourism:</b>			
Buildings	4	4	4	Buildings	27	30	28
<b>Highways</b>				Vehicles	37	36	40
<b>Department of Transportation:</b>				<b>Department of Labor and Industrial Relations:</b>			
Highway lane miles	N/A	2,433	2,438	Buildings	8	8	8
Highway bridges	N/A	752	752	Vehicles	2	2	6
Buildings	26	26	26	<b>Conservation of Natural Resources</b>			
Vehicles	932	918	894	<b>Department of Land and Natural Resources:</b>			
<b>Department of Land and Natural Resources:</b>				Land area (in square miles)			
Land area (in square miles)	6,423	6,423	6,423	Buildings	76	75	75
Buildings	76	75	75	Vehicles	681	597	669
Vehicles	681	597	669	<b>Department of Agriculture:</b>			
<b>Department of Agriculture:</b>				Buildings	31	27	27
Buildings	31	27	27	Vehicles	166	167	166
Vehicles	166	167	166				

Source: Buildings and Vehicles - State of Hawaii, Department of Accounting and General Services.  
 Lane Miles and Bridges - State of Hawaii, Department of Transportation.  
 Land Area - State of Hawaii, Data Book 2005.

See accompanying independent auditors' report.

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