Financial Statements and Report of Independent Certified Public Accountants

State of Hawaii
Department of Transportation
Harbors Division

June 30, 2007

State of Hawaii
Department of Transportation
Harbors Division

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Certified Public Accountants

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Report of Independent Auditors

The Auditor
State of Hawaii

We have audited the accompanying financial statements of the business – type activities of the Harbors Division, Department of Transportation of the State of Hawaii, (Harbors Division) as of and for the year ended June 30, 2007 as shown on pages 12 through 38. These financial statements are the responsibility of the management of the Harbors Division. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in note 1, the financial statements of the Harbors Division are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of Hawaii that is attributable to the transactions of the Harbors Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2007, and the changes in its financial position or, where applicable, its cash flows for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business – type activities of the Harbors Division as of June 30, 2007, and the changes in its financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2007 on our consideration of the Harbors Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information, however, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The supplementary information included in the Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

December 19, 2007

State of Hawaii
Department of Transportation
Harbors Division

Management's Discussion and Analysis

June 30, 2007

This section of the Harbors Division, Department of Transportation of the State Of Hawaii, relating to the Public Undertaking (Harbors Division) financial report, presents the reader with an introduction and overview of the Harbors Division's financial performance for the fiscal year ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

The statewide system of commercial harbors consists of ten harbors on six islands. The system plays a vital role in Hawaii's economy as the ports serve as the primary means for goods to enter and exit the state. Hawaii imports approximately 80% of what it consumes, the majority of which enters the state through the commercial harbors system.

The Harbors Division is self-sustaining. The Department of Transportation (DOT) is authorized to impose and collect rates and charges for the harbors system services and properties to generate revenues to fund operating expenses. The Capital Improvements Program (CIP) is also funded by the Harbors Division's revenues and proceeds from the issuance of harbors system revenue bonds.

Financial Highlights

- The Harbors Division's net assets were $623.3 million in 2007 compared to $598.1 million in 2006, an increase of 4.2%.
- Wharfage revenues were $41.8 million in 2007 compared to $41.5 million in 2006, an increase of 0.9%.
- Total expenses were $76.6 million in 2007 compared to $61.6 million in 2006, an increase of 24.3%.

Total operating revenues increased by $2.4 million from $83.2 million in fiscal year 2006, to $85.7 million in fiscal year 2007.

The majority of operating revenues are directly related to cargo and ship operations. Service revenues, which include wharfage, dockage and passenger fees, generated $58.1 million in fiscal year 2007, an increase of $1.8 million or 3.2% over fiscal year 2006. The increase in revenues was primarily due to a $1.0 million increase in passenger fees and a $920,000 increase in dockage. Approximately 2.4 million passengers (inbound and outbound) passed through these harbors in fiscal year 2007, an increase of 25.6% over fiscal year 2006's 1.9 million passengers.

Passenger fee revenue for fiscal years 2007 and 2006 were $5.5 million and $4.5 million, respectively. The 22.5% revenue increase from 2006 to 2007 is due to growth in the number of cruise ship passengers.

Since December 2001, NCL has operated passenger cruises that included a required stopover in the Republic of Kirabati (Fanning Island) to comply with federal restrictions on foreign flagged vessels. In 2003, NCL obtained an exemption from federal maritime law to operate three foreign built ships under the U.S. flag in Hawaii. These ships have all commenced service. The Pride of Aloha began service among the islands in July 2004, followed by the Pride of America in July 2005 and the Pride of Hawaii in June 2006. Passengers on these U.S. flagged vessels taking a continuous trip whose point of origin and termination is a state port were charged a fee of $2.50 at the point of origin and termination and an in-transit fee of $1.85 at each of the other ports under the tariff for disembarking and embarking. Other passengers are assessed a $2.50 passenger fee for embarking and a $2.50 passenger fee for disembarking. While passenger counts increased by 25.6% in 2007 over 2006, revenues increased by 22.5% as approximately 71.5% of the 2007 passengers were in-transit.

Wharfage revenue in fiscal years 2007 and 2006 were $41.8 million and $41.5 million, respectively. The increase of $380,000 or 0.9% was primarily due to a 1.6% rise in containers expressed in twenty-foot equivalent units. Gross rental revenues in fiscal years 2007 and 2006, were $26.0 million and $25.4 million, respectively. The increase of $600,000 or 2.4% from fiscal year 2006 to 2007 was primarily due to rental renegotiations at higher rates. Net rental revenues after deducting the provision for doubtful accounts were $25.5 million for 2007 and $24.9 million for 2006. The provision for doubtful accounts for the fiscal year ending June 30, 2007 was approximately $500,000.

Operating expenses excluding depreciation increased by 20.3% from $38.2 million in fiscal year 2006, to $46.0 million in fiscal year 2007. The increase from 2006 to 2007 of $7.8 million is due to an approximately $4.9 million increase in harbor operations expenses. Expenses increased due to a write-off of cancelled projects totaling $1.3 million and other completed projects totaling $1.1 million which were transferred from construction in progress for which costs could not be capitalized. Security expenses, utilities and other expenses increased by $2.5 million in 2007. Maintenance expenses increased by $1.7 million in 2007 due to a higher number of special maintenance and repair projects undertaken in the fiscal year. Personnel services expenses increased by approximately $1.1 million primarily due to collective bargaining pay increases.

A summary of operations and changes in net assets for the fiscal years ended June 30, 2007 and 2006 follows:

Table 1
Condensed Statements of Revenues,
Expenses and Changes in Net Assets
(in thousands of dollars)

	As of June 30		2007 – 2006	
	2007	2006	Increase (decrease)	% Change
Operating revenues	$ 85,663	$ 83,217	$ 2,446	3%
Non-operating revenues	11,751	6,184	5,567	90%
Total revenues	97,414	89,401	8,013	9%
Depreciation	14,817	13,987	830	6%
Other operating expenses	45,991	38,223	7,768	20%
Non-operating expenses	15,833	9,387	6,446	69%
Total expenses	76,641	61,597	15,044	24%
Income before capital contributions	20,773	27,804	(7,031)	(25)%
Capital contributions	4,371	122	4,249	3,483%
Increase in net assets	$ 25,144	$ 27,926	$ (2,782)	(10)%

A summary of the Harbors Division's net assets at June 30, 2007 and 2006 are shown below:

Table 2
Condensed Statements of Net Assets
(in thousands of dollars)

	Year Ended June 30		2007 – 2006	
	2007	2006	Increase (decrease)	% Change
Current and other assets	$ 291,812	$ 191,427	$ 100,385	52%
Capital assets	659,042	611,054	47,988	8%
Total assets	950,854	802,481	148,373	18%
Long-term debt outstanding	262,578	175,847	86,731	49%
Other liabilities	65,014	28,516	36,498	128%
Total liabilities	327,592	204,363	123,229	60%
Net assets:				
Invested in capital assets, net of related debt	396,464	437,575	(41,111)	(9)%
Restricted	10,898	10,898	–	0%
Unrestricted	215,900	149,645	66,255	44%
	$ 623,262	$ 598,118	$ 25,144	4%

The largest portion of the Harbors Division's net assets (64% at June 30, 2007) represents its investment in capital assets (e.g., land, wharves, buildings, improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Harbors Division uses these capital assets to provide services to its users of the harbors system; consequently, these assets are not available for future spending. Although the Harbors Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay for such liabilities.

The change in net assets is an indicator of whether the overall fiscal condition of the Harbors Division improved or worsened during the fiscal year. The change in net assets may serve over time as a useful indicator of the Harbor Division's financial position. The total assets exceeded liabilities by approximately $623.3 million at June 30, 2007, and net assets increased by approximately $25.1 million from June 30, 2006.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2007, the Harbors Division had $659.0 million invested in capital assets as shown in Table 3. There was a net increase (additions, deductions and depreciation) of $48.0 million from the end of the prior fiscal year.

Table 3
Capital Assets
(in thousands of dollars)

	Year Ended June 30		2007 – 2006	
	2007	2006	Increase (decrease)	% Change
Land and land improvements	$ 377,337	$ 362,054	$ 15,283	4%
Wharves	224,712	215,361	9,351	4%
Other improvements	68,053	69,647	(1,594)	(2)%
Buildings and improvements	83,053	53,775	29,278	54%
Equipment	47,061	9,427	37,634	399%
Subtotal	800,216	710,264	89,952	13%
Less accumulated depreciation	(177,474)	(164,831)	(12,643)	8%
Subtotal	622,742	545,433	77,309	14%
Construction in progress	36,300	65,621	(29,321)	(45)%
Total	$ 659,042	$ 611,054	$ 47,988	8%

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2007, included the following:

- $39.1 million Design and Build Barges and Vehicle Ramp Systems for Inter-Island Ferry Service, Statewide
- $30.3 million Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- $4.4 million Pier 3 Breasting Dolphins and Catwalks, Hilo Harbor, Hawaii
- $4.0 million Reconstruction of Puunene Container Yard, Kahului Harbor, Maui
- $2.2 million Replacement of Pier 3 Fendering System at Nawiliwili Harbor, Kauai

- $2.6 million Demolition of Pier 2 Shed and Misc. Site Work at Inter-Island Barge Terminal, Kahului Harbor, Maui
- $2.5 million Pier 1 Comfort Station, Waterline and Sewerline Improvements, Kahului Harbor, Maui
- $815,000 Methane Mitigation, Piers 36-38, Lease Parcel 8, Honolulu Harbor, Oahu

In addition to these capital asset additions, the Harbors Division is currently constructing the following projects statewide:

- $24.0 million Reconstruction of Piers 52 & 53 Sand Island Container Yard, Honolulu Harbor, Oahu
- $23.0 million Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu
- $4.7 million Substructure Repairs at Pier 2, Honolulu Harbor, Oahu
- $5.5 million Segmented Pier 3 Improvements, Nawiliwili Harbor, Kauai
- $3.2 million Construction of Miscellaneous Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- $555,000 Security Surveillance System for Neighbor Island Passenger Terminals
- $550,000 Crash Barrier Gates for Container Terminals, Honolulu Harbor, Oahu

Finally, the Harbors Division is currently designing improvements, some of which include the following projects statewide:

- $35.0 million Construction of Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii
- $6.0 million Construction of Pier 29 Container Yard, Honolulu Harbor
- $3.5 million Commuter Ferry System at Kaunakakai Harbor, Molokai
- $2.0 million Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu
- $2.0 million Pier 1 Makai Comfort Station and Waterline Improvements, Kahului Harbor
- $2.0 million Pavement Improvements Along Pier 3 Bulkhead, Nawiliwili Harbor, Kauai

- $1.1 million Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbors, Oahu
- $750,000 Statewide Maritime Identification Credentialing System

The Harbors Division is committed under contracts awarded for capital improvements projects totaling approximately $68.0 million as of June 30, 2007.

Additional information regarding the Harbors Division's capital assets can be found in Note 4.

Indebtedness

Harbors System Revenue Bonds and Reimbursable General Obligation Bonds

As of June 30, 2007, $266,040,000 of harbors system revenue bonds was outstanding compared to $180,865,000 as of June 30, 2006. The Harbors Division issued $96.5 million in Series A of 2006 Revenue Bonds in July 2006. The Harbors Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Harbors Revenue Fund.

Additional information regarding the Harbors Division's indebtedness can be found in Notes 5, 6 and 7.

Act 178, Session Laws of Hawaii 2005, appropriated reimburseable general obligation bonds of $20 million each in fiscal year 2006 and fiscal year 2007, for harbor improvements needed to support the operations of Hawaii Superferry, Inc. Details on the reimbursements schedule are still being determined by the State of Hawaii, Department of Budget and Finance. See Note 8.

Credit Rating and Bond Insurance

All harbor system revenue bonds issued since 1997 have been issued with bond insurance. As of June 30, 2007, the underlying ratings for harbor system revenue bonds were as follows:

- Standard and Poor's A+
- Moody's Investors Service A1
- Fitch IBCA, Inc. A+

Ratings made by Standard and Poor's, Moody's Investors Service, and Fitch IBCA, Inc. may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information. Ratings provided by these rating companies are not "market ratings," as the ratings are not a recommendation to buy, hold, or sell any security.

Bond Covenants

Bond covenants allow the issuance of additional debt, on parity, as to a lien on the net revenues of the Harbors Division provided certain net revenue ratios are met. Net revenues of the Harbors Division must be at least 1.25 times the debt service requirements under the 1997 Harbor Revenue Bond Certificate.

The Harbors Division currently has a coverage ratio of 2.58 under the 1997 Harbor Revenue Bond Certificate as compared to the prior fiscal year's ratio of 3.38.

Request for Information

The financial report is designed to provide a general overview of the Harbors Division's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Harbors Administrator, State of Hawaii, Department of Transportation, Harbors Division, 79 S. Nimitz Highway, Honolulu, Hawaii 96813, or by e-mail to *davis.k.yogi@hawaii.gov*.

State of Hawaii
Department of Transportation
Harbors Division

Statement of Net Assets

June 30, 2007

Assets	
Current Assets	
Cash and cash equivalents (Note 3)	$ 134,227,965
Receivables	
Accounts receivable, less allowance for doubtful accounts of $3,140,408	7,776,981
Notes receivable, less allowance for doubtful accounts of $7,807,932 (Note 15)	9,283
Interest	3,845,445
Other	160,240
Materials and supplies, at cost	236,495
Prepaid insurance and others	24,083
Total current assets	146,280,492
Restricted Assets	
Current	
Cash and cash equivalents (Note 3)	142,627,468
Total current restricted assets	142,627,468
Capital Assets (Notes 4, 9 and 16)	
Non-depreciable facilities	
Land	164,116,866
Land improvements	76,086,739
Other improvements	66,908
	240,270,513
Depreciable facilities	
Land improvements	137,066,198
Wharves	224,711,606
Other improvements	68,053,566
Buildings	83,053,555
Equipment	47,060,781
	559,945,706
Less accumulated depreciation	177,474,093
	382,471,613
Construction in progress	36,299,570
	659,041,696
Other Asset	
Unamortized bond issue costs	2,904,839
	$ 950,854,495

Liabilities and Net Assets	
Current Liabilities (payable from current assets)	
Accounts payable	$ 5,905,180
Accrued workers' compensation (Notes 5 and 12)	102,026
Contracts payable, including retainages	1,699,620
Accrued vacation (Note 5)	562,475
Due to Department of Budget and Finance (Note 8)	39,045,647
Total current liabilities (payable from current assets)	47,314,948
Current Liabilities (payable from restricted assets)	
Contracts payable, including retainages	5,956,182
Revenue bonds payable, current maturities (Notes 5 and 6)	11,687,707
Accrued interest payable	7,064,909
Security deposits	2,736,273
Total current liabilities (payable from restricted assets)	27,445,071
Long-Term Liabilities	
Accrued workers' compensation (Notes 5 and 12)	356,254
Long-term debt, less current maturities	
Revenue bonds payable, net (Notes 5 and 6)	250,890,110
Accrued vacation (Note 5)	1,585,977
Total long-term liabilities	252,832,341
Total liabilities	327,592,360
Net Assets	
Invested in capital assets, net of related debt	396,463,878
Restricted - revenue bond requirements	10,897,658
Unrestricted	215,900,599
Total net assets	623,262,135
	$ 950,854,495

See accompanying notes.

State of Hawaii
Department of Transportation
Harbors Division

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007

Operating revenues, net	
Services	$ 58,075,787
Rentals	25,529,333
Others	2,057,430
	85,662,550
Operating expenses	
Personnel services	13,002,627
Harbor operations (Notes 4 and 13)	16,442,169
Maintenance	8,470,658
State of Hawaii, surcharge for central service expenses (Note 14)	3,024,439
Fireboat operations (Note 14)	1,709,572
General administration	1,848,051
Department of Transportation, general administration expenses (Note 14)	1,493,490
Depreciation	14,816,871
	60,807,877
Operating income	24,854,673
Nonoperating revenue (expense)	
Interest revenue	
Deposits in investment pool	11,751,112
Interest expense	
Revenue bonds (Note 9)	(12,839,231)
Amortization of bond discount, issue costs and loss on refunding	(162,545)
Loss on disposal of capital assets	(2,831,614)
Income before capital contributions	20,772,395
Capital contributions	4,371,676
Increase in net assets	25,144,071
Net assets as of July 1, 2006	598,118,064
Net assets as of June 30, 2007	$ 623,262,135

See accompanying notes.

State of Hawaii
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Statement of Cash Flows

Year Ended June 30, 2007

Cash flows from operating activities:	
Cash received from customers	$ 85,287,368
Cash paid to suppliers	(28,725,783)
Cash paid to employees	(12,939,537)
Net cash provided by operating activities	43,622,048
Cash flows from capital and related financing activities:	
Cash received from bond issuance	97,427,072
Government grants received in aid of construction	305,953
Acquisition and construction of capital assets	(57,992,463)
Principal paid on bonds	(11,395,000)
Interest paid on bonds	(11,972,441)
Proceeds from debt payable to Department of Budget and Finance	28,530,090
Net cash provided by capital and related financing activities	44,903,211
Cash flows from investing activities	
Interest received	9,303,180
Net cash provided by investing activities	9,303,180
Net Increase in cash and cash equivalents	97,828,439
Cash and cash equivalents at beginning of fiscal year	179,026,994
Cash and cash equivalents at end of fiscal year	$ 276,855,433
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 24,854,673
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	14,816,871
Provision for doubtful accounts	675,792

See accompanying notes.

State of Hawaii
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Statement of Cash Flows (continued)

Changes in assets and liabilities:		
Receivables		(549,166)
Materials and supplies		(5,253)
Payables		3,595,137
Accrued vacation		63,090
Prepaid		(283)
Accrued workers' compensation		(2,797)
Security deposits		173,984
Net cash provided by operating activities	$	43,622,048
Supplemental disclosure of noncash capital and related financial activities:		
Amortization of bond discount, issue costs and loss on refunding	$	162,545
Acquisition of capital assets from the Hawaii Community Development Authority	$	4,437,379

See accompanying notes.

State of Hawaii
Department of Transportation
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Notes to Financial Statements

June 30, 2007

1. Financial Reporting Entity

In 1959, the Harbors Division was established within the Department of Transportation of the State of Hawaii (DOT) effective July 1, 1961. All functions and powers to administer, control and supervise all State of Hawaii (State) harbors and water navigational facilities were assigned to the Director of DOT on that date.

The Harbors Division is part of DOT which is part of the executive branch of the State. The Harbors Division's financial statements reflect only its portion of the proprietary fund type. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually, which include the Harbors Division's financial activities.

The "Certificate of the Director of Transportation Providing for the Issuance of 1997 State of Hawaii Harbor Revenue Bonds," dated March 1, 1997 (1997 Certificate), define the "Undertaking" as all of the harbor and waterfront improvements and other properties under the jurisdiction, control and management of the Harbors Division, except those principally used for recreation and the landing of fish.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting policies of the Harbors Division conform to U.S. generally accepted accounting principles, as applicable to enterprise activities of governmental units as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the Harbors Division has elected not to apply the Financial Accounting Standards Board pronouncements on accounting and financial reporting that were issued after November 30, 1989.

An enterprise fund is used to account for the acquisition, operation and maintenance of government facilities and services that are entirely or predominantly supported by user charges. The Harbors Division's operations are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents, for the purpose of the statement of cash flows, include all cash and investments with original maturities of three months or less. Cash and cash equivalents also include investments of pooled cash balances. The Director of Finance invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances are not reduced for these investments.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at their gross value when earned, reduced by an allowance for doubtful accounts.

Accounts are written-off upon the approval of the Department of the Attorney General, when it believes, after considering economic conditions, business conditions, and collection efforts, that the accounts are uncollectible.

The allowance for doubtful accounts is increased by charges to operating income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the adverse situations that may affect the customer's ability to repay, historical experience and current economic conditions. Past due status is determined based on contractual terms.

Risk Management

The Harbors Division is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

2. Summary of Significant Accounting Policies (continued)

Capital Assets and Depreciation

Capital assets are stated at cost. Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets. Depreciation is not provided for in the year of acquisition, but is provided for the entire year in the year of disposal. Disposals of assets are recorded by removing the cost and related accumulated depreciation from the accounts with the resulting gain or loss reflected in non-operating revenue or expense.

Capital assets and their related estimated useful lives used to compute depreciation are as follows:

	Useful Lives	Capitalization Threshold
Land improvements	10 – 100 years	$ 100,000
Wharves	10 – 100 years	100,000
Buildings	5 – 50 years	100,000
Other improvements	5 – 50 years	100,000
Equipment	5 – 20 years	5,000

Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Interest cost is capitalized during the period of construction for capital improvement projects except those projects funded by grants from the State or the federal government.

Bond Issue Costs

Costs relating to the issuance of bonds are amortized using the straight-line method (which approximates the effective-interest method) over the term of the obligations.

2. Summary of Significant Accounting Policies (continued)

Unamortized Debt Premium (Discount)

Debt premium (discount) is amortized ratably over the term of the related debt, and the unamortized balance is reflected as an offset against the related long-term liabilities in the Statement of Net Assets.

Refunding of Debt

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is reported as a deduction from or an addition to the new debt liability.

Accrued Vacation

The Harbors Division accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation is earned at the rate of 168 hours per calendar year, depending on employee's date of hire. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment.

Operating Revenues

Operating revenues are those that result from providing goods and services. The provision for bad debts for the year ended June 30, 2007 was approximately $676,000. It excludes revenues related to capital and related financing activities, noncapital financing activities, or investing activities.

2. Summary of Significant Accounting Policies (continued)

Operating Expenses

When an expense is incurred for which unrestricted and restricted resources are available to pay the expense, it is the Harbors Division's policy to apply the expense to unrestricted resources first then to restricted resources.

Capital Contributions

The Harbors Division receives federal grants for capital asset acquisition and facility development, which are reported in the Statement of Revenues, Expenses and Changes in Net Assets, after non-operating revenues and expenses as capital contributions.

3. Cash

At June 30, 2007, information relating to the insurance and collateral of cash deposits is not available since such information is determined on a statewide basis and not for individual departments or divisions of the State. Substantially all of Harbors' cash are under the custody of the Director of Finance. Cash deposits of the State are either federally insured or collateralized with obligations of the State or the U.S. government. 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.

Statutes authorize the State Department of Finance to invest, with certain restrictions, in obligations of the State or the U.S. government, in federally insured savings accounts, time certificates of deposit and repurchase agreements with federally insured banks and savings and loan associations authorized to do business in the State. Money held as reserves may be invested in obligations of the U.S. government, the State or any subdivision of the State. Investments are insured or collateralized with securities held by the State or by its agent in the State's name.

4. Capital Assets

The changes in capital assets were as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Nondepreciable assets:				
Land and improvements	$ 236,356,084	$ 3,914,429	$ –	$ 240,270,513
Depreciable assets:				
Land improvements	125,698,206	11,908,380	(540,388)	137,066,198
Wharves	215,361,524	9,377,671	(27,589)	224,711,606
Other improvements	69,646,543	–	(1,592,977)	68,053,566
Buildings	53,774,996	31,897,308	(2,618,749)	83,053,555
Equipment	9,426,703	37,859,901	(225,823)	47,060,781
Total at cost	710,264,056	94,957,689	(5,005,526)	800,216,219
Less accumulated depreciation for:				
Land improvements	33,056,822	3,956,729	(467,386)	36,546,165
Wharves	78,237,853	6,125,018	(113,572)	84,249,299
Other improvements	25,225,564	2,167,756	(433,054)	26,960,266
Buildings	21,496,385	2,036,033	(1,014,370)	22,518,048
Equipment	6,814,511	531,335	(145,531)	7,200,315
Total accumulated depreciation	164,831,135	14,816,871	(2,173,913)	177,474,093
Construction in progress	65,620,635	62,279,831	(91,600,896)	36,299,570
	$ 611,053,556	$ 142,420,649	$ (94,432,509)	$ 659,041,696

4. Capital Assets (continued)

During fiscal year 2007, the Harbors Division decreased construction in progress by approximately $2,371,000 for costs associated with terminated projects and completed projects for which costs could not be capitalized. The $2,371,000 is included in harbor operations expenses in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

5. Long-Term Liabilities

The changes in long-term liabilities were as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Current	Noncurrent
Accrued workers' compensation	$ 461,077	$ 140,469	$ 143,266	$ 458,280	$ 102,026	$ 356,254
Accrued vacation	2,085,363	968,477	905,388	2,148,452	562,475	1,585,977
Revenue bonds	180,865,000	96,570,000	11,395,000	266,040,000	12,025,000	254,015,000
	183,411,440	97,678,946	12,443,654	268,646,732	12,689,501	255,957,231
Less:						
Unamortized discount	(1,770,043)	–	231,468	(2,001,511)	(124,544)	(1,876,967)
Unamortized premium	963,683	1,542,554	274,461	2,231,776	276,666	1,955,110
Unamortized deferred loss on refunding	(4,211,403)	–	(518,955)	(3,692,448)	(489,415)	(3,203,033)
	$178,393,677	$ 99,221,500	$ 12,430,628	$265,184,549	$ 12,352,208	$252,832,341

6. Revenue Bonds Payable

Pursuant to authorization from the State Legislature, the Director of DOT issued the 1997 Certificate, which provides for the issuance of bonds at any time and from time-to-time upon compliance with certain conditions of the 1997 Certificate.

The harbor revenue bonds (Bonds) are collateralized by a charge and lien on the revenues of the Public Undertaking as defined in the 1997 Certificate.

6. Revenue Bonds Payable (continued)

The Bonds are subject to redemption at the option of the Director of DOT and the State during specific years at prices ranging from 102-1/2% to 100% of face value.

In July 2006, the Harbors Division issued $96,570,000 Series A of 2006 Revenue Bonds and received proceeds of approximately $97,400,000. These bonds will mature through the year 2031 with interest rates ranging from 4.00% to 5.25%.

The following is a summary of the bonds issued and outstanding at June 30, 2007:

				Current			
Year of Issue	**Final Redemption Date**	**Interest Rates**	**Original Amount of Issue**	**Principal due July 1, 2007**	**Principal due January 1, 2008**	**Total Current**	**Noncurrent**
1997	July 1, 2027	3.95–5.75%	$ 56,290,000	$ 540,000	$ –	$ 540,000	$ 51,865,000
2000	July 1, 2029	4.50–6.00%	79,405,000	2,370,000	–	2,370,000	61,520,000
2002	July 1, 2019	3.00–5.50%	24,420,000	2,205,000	–	2,205,000	13,985,000
2004	January 1, 2024	2.50–6.00%	52,030,000	–	4,805,000	4,805,000	34,140,000
2006	January 1, 2031	4.00–5.25%	96,570,000	–	2,105,000	2,105,000	92,505,000
			$ 308,715,000	$ 5,115,000	$ 6,910,000	$ 12,025,000	$ 254,015,000
Less:							
Unamortized discount						(124,544)	(1,876,967)
Unamortized premium						276,666	1,955,110
Unamortized deferred loss on refunding						(489,415)	(3,203,033)
						$ 11,687,707	$ 250,890,110

6. Revenue Bonds Payable (continued)

Debt service requirements to maturity for the Bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2008	$ 11,652,500	$ 13,711,769	$ 25,364,269
2009	10,242,500	13,158,744	23,401,244
2010	10,782,500	12,672,424	23,454,924
2011	10,015,000	12,136,442	22,151,442
2012	11,812,500	11,618,011	23,430,511
2013-2017	57,330,000	48,562,603	105,892,603
2018-2022	68,342,500	31,872,703	100,215,203
2023-2027	52,297,500	14,751,259	67,048,759
2028-2031	24,995,000	2,824,162	27,819,162
	$ 257,470,000	$ 161,308,117	$ 418,778,117

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 of $8,570,000 as of June 30, 2007 which are held in anticipation of principal payments due on July 1, 2007 and January 1, 2008.

In August, 2007, the Harbors Division issued $51,645,000 Series A of 2007 Revenue Bonds. These bonds refunded all outstanding Series of 1997 Bonds and will mature through the year 2027 at an average interest rate of 4.9%. The economic gain recognized on this refunding was approximately $1,600,000.

7. Harbor Revenue Bond Requirements

1997 Certificate – Minimum Net Revenue Requirement

Pursuant to Section 6.03 of the 1997 Certificate, the Harbors Division covenants and agrees that so long as any of the Bonds remain outstanding, it will enforce and collect fees, rates, rents and charges for the Public Undertaking that will yield net revenue, as defined by the 1997 Certificate, for the immediately ensuing 12 months, in an amount at least sufficient to:

(1) The amount computed in accordance with Section 6.03 of the 1997 Certificate:

(a) Together with funds legally available therefore including any amounts on deposit in the harbor reserve and contingency account; an aggregate sum equal to at least 1.25 times the total amount of: (i) the interest payments for such 12 months on all the Bonds outstanding under the 1997 Certificate, (ii) the principal amount of the Bonds maturing by their terms during such 12 months and (iii) the minimum sinking fund payments for all Bonds required to be made during such 12 months; and

(b) Without consideration of other funds, shall be at least equal to 1.00 times the bond service for such 12 months.

The harbor revenue bond debt service requirements, including minimum sinking fund payments during the current fiscal year, computed in accordance with Section 6.03 of the 1997 Certificate totaled $25,364,269. Net revenues of the Public Undertaking, as defined by the 1997 Certificate amounted to $65,344,753 or 2.58 times the minimum net revenue requirement for the fiscal year ended June 30, 2007.

7. Harbor Revenue Bond Requirements (continued)

1997 Certificate – Minimum Net Revenue Requirement (continued)

Harbor Special Fund

All revenues are deposited into this fund and applied in the order of priority set forth under the 1997 Certificate. Section 5.01 of the 1997 Certificate requires that the following accounts be established:

(1) Harbor Interest Account

Equal monthly installments sufficient to pay for the interest next becoming due on the Bonds are required to be paid into this account. This requirement was met as of June 30, 2007.

(2) Harbor Principal Account

Commencing with the first business day of each fiscal year, equal monthly payments are required to be made to this account sufficient to redeem the Bonds scheduled for redemption on the following July 1 and January 1. This requirement was met as of June 30, 2007.

(3) Harbor Debt Service Reserve Account

In order to provide a reserve for the payment of the principal and interest on the Bonds, the Harbors Division is required to deposit in the harbor revenue special fund an amount equal to the lesser of: (a) the average annual bond service on such series and (b) the amount permitted by the Internal Revenue Code of 1986 in order that the interest on such series is excluded from gross income for federal income tax purposes.

Furthermore, the Harbors Division is required to satisfy the reserve requirement of maximum aggregate bond service by no later than the first date on which a principal installment is payable on July 1st or January 1st of each fiscal year.

7. Harbor Revenue Bond Requirements (continued)

Harbor Special Fund (continued)

(3) Harbor Debt Service Reserve Account (continued)

In lieu of the credit of monies to the harbor debt service reserve account, the Harbors Division may cause to be so credited a surety bond or an insurance policy payable to the Harbors Division for the benefit of the holders of the Bonds of a series or a letter of credit in an amount equal to the difference between the reserve requirement and the amounts then on credit to the harbor debt service reserve account. In the event a surety bond, insurance policy, or letter of credit is secured to satisfy that portion of the reserve requirement allocable to a series of Bonds, so long as such surety bond, insurance policy, or letter of credit is in effect, the owners of such series of Bonds shall not be entitled to payment from or a lien on the funds on deposit in the harbor revenue special fund credited to the harbor debt service reserve account to satisfy that portion of the reserve requirement allocable to other series of Bonds, nor shall the owners of Bonds of such other series be entitled to any payment from such surety bond, insurance policy, or letter of credit. The surety bond, insurance policy, or letter of credit shall be payable (upon the giving of notice as required thereunder) on any date on which monies will be required to be applied from the harbor debt service reserve account to the payment of the principal or interest on any Bonds of such series and such withdrawals may not be made from amounts credited to the harbor debt service reserve account for such series of Bonds.

Prior to the use of a surety bond, insurance policy, or letter of credit pursuant to the provisions of this paragraph (other than any such use at the time of issuance of the 1997 Series bonds), DOT shall receive written confirmation from the rating agency that the rating on the Bonds outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a surety bond, an insurance policy, or a letter of credit provided pursuant to this paragraph, the Harbors Division shall be obligated either (a) to reinstate the maximum limits of such surety bond, insurance policy, or letter of credit or (b) to credit to the harbor debt service reserve account, funds in the amount of the disbursement made under such surety bond, insurance policy, or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the harbor

7. Harbor Revenue Bond Requirements (continued)

Harbor Special Fund (continued)

(3) Harbor Debt Service Reserve Account (continued)

debt service reserve account allocable to a series of Bonds equals that portion of the reserve requirement allocable to such series; provided, however, a failure to immediately restore such reserve requirement shall not constitute an event of default if the reserve requirement is restored within the time period permitted by Section 11.01(c) (90 days following the required notice). Notwithstanding the provisions of Section 11.01(c), the Harbors Division shall not permit any surety bond, insurance policy, or letter of credit which has been established in lieu of a deposit into the harbor revenue special fund for credit to the harbor debt service reserve account to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the surety bond, insurance policy, or letter of credit.

(4) Harbor Reserve and Contingency Account

Monies on credit to the harbor reserve and contingency account may be used to make up any deficiency with respect to any series of Bonds in the harbor interest account, the harbor principal account and the harbor debt service reserve account. To the extent not used to make up any such deficiencies, monies on credit to the harbor reserve and contingency account may be used for any other purpose within the jurisdiction, powers, duties and functions of the Harbors Division.

8. General Obligation Bonds

In fiscal 2006, the State issue $350,000,000 of general obligation bonds, Series DI, dated March 23, 2006, and in fiscal 2007, issued $350,000,000 of general obligation bonds, Series DJ dated March 28, 2007. Interest rates on the Series DI and Series DJ bonds range from 3.50% to 5.50%.

8. General Obligation Bonds (continued)

Approximately $40,000,000 was appropriated from the Series DI and Series DJ general obligation bonds for harbor improvements to support the operations of the Hawaii Superferry, Inc. (HSF). HSF began inter-island ferry service with its first ferry to Maui and Kauai from Honolulu in August 2007. Services were temporarily halted as a result of legal issues and resumed in December 2007. Act 002, second Special Session 2007 was enacted to allow an inter-island ferry service to operate while the State conducts an Environmental Assessment. The Harbors Division is responsible for debt service payments on their portion of these bonds. Interest incurred to date of approximately $2,200,000 is unpaid and has been capitalized to the construction project. The Harbors Division executed a $38,500,000 contract for the construction of barges and ramps with the balance of the appropriation used to finance other harbor upgrades needed to support the operations of HSF. As of June 30, 2007, approximately $35,631,000 has been expended under this appropriation and is reflected with the unpaid interest in the Due to Department of Budget and Finance in the accompanying Statement of Net Assets. The Department of Budget and Finance has not yet provided the Harbors Division with a debt service payment schedule.

9. Interest Cost

Total interest cost incurred related to Revenue and General Obligation Bonds for the fiscal year ended June 30, 2007 amounted to $16,112,000. Of this amount, $3,272,000 was capitalized as part of the construction cost of harbor facilities.

10. Leasing Operations

The Harbors Division’s leasing operations consist principally of the leasing of land, wharf and building space under revocable permits and long-term leases. The revocable permits provide for tenancy on a month-to-month basis and are renewable annually at the option of the State. The long-term leases, which are classified as operating leases, expire in various years through 2058. These leases generally call for rental increases every five to ten years based on a step-up or independent appraisals of the fair rental value of the leased property.

10. Leasing Operations (continued)

The following is a schedule of approximate future minimum lease rentals on noncancelable operating leases as of June 30, 2007.

	Amount
Fiscal Year Ending June 30	
2008	$ 8,908,278
2009	8,572,782
2010	8,438,010
2011	8,559,761
2012	8,321,694
Thereafter	106,023,835
	$ 148,824,360

The above schedule does not include estimated future rental revenue for certain leases beyond their first 15 years. An estimate could not be made due to rental re-openings after the fifteenth year in which rental rates will be based upon the prevailing fair value.

11. Retirement Benefits

Employees' Retirement System

Substantially all eligible employees of State which includes the Harbors Division are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits.

11. Retirement Benefits (continued)

Employees' Retirement System (continued)

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the ERS at City Financial Tower, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Members of the ERS belong to either a contributory, noncontributory or hybrid option. Only employees of the Harbors Division hired on or before June 30, 1984 are eligible to participate in the contributory option. Members are required by State statute to contribute 7.8% of their salary to the contributory option and 6% to the hybrid option. The Harbors Division is required to contribute to all options at an actuarially determined rate. Total contributions by the Harbors Division for the fiscal years ended June 30, 2007, 2006 and 2005, was approximately $1,335,000, $1,298,000 and $765,000, respectively. The contribution rate for each of the fiscal years ended June 30, 2007, 2006 and 2005 was 13.75% and was 100% of the required contribution in those years.

Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to retired State employees. Contributions are financed on a pay-as-you-go basis. The Harbors Division's share of the expense for post-retirement health care and life insurance benefits for the fiscal year ended June 30, 2007 was approximately $687,000.

Construction and Other Contracts

The Harbors Division is committed under contracts awarded for construction and other services. These commitments amounted to approximately $81,436,000 at June 30, 2007.

11. Retirement Benefits (continued)

Accumulated Sick leave Pay

Employees earn sick leave credits at the rate 14 hours for each month of service depending on the employee's hire date. Unused sick leave may be accumulated without limitation and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, for public employees who retire or leave government service in good standing with sixty days or more of unused sick leave, the unused sick leave is converted to additional retirement service credit at the rate of one additional month of service for each 20 days of unused sick leave. Accumulated sick leave as of June 30, 2007 approximated $6,376,000.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 475. 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 State's or Harbors Division's financial statements.

12. Risk Management

The Harbors Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation and acts of terrorism. The State generally retains the first $1,000,000 per occurrence of property losses, the first $3,000,000 per occurrence with respect to general liability claims and the first $500,000 per occurrence with respect to criminal acts. The State obtains commercial coverage for losses in excess of these retention limits. The property loss limit is $100,000,000 per occurrence, except for flood and earthquake which have a $40,000,000 aggregate loss limit, terrorism which is $50,000,000 per

12. Risk Management (continued)

occurrence limit and machinery which has a $40,000,000 per occurrence limit. The State also obtains general liability insurance and crime insurance for state employees, with a $10,000,000 per occurrence or aggregate limit.

The State and thus the Harbors Division is generally self insured for workers' compensation and automobile claims. The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year end, estimates (based on projections of historical developments) or claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The Harbors Division 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 financial statements and the amount of the loss is reasonably estimable.

13. Ceded Lands

In previous years, the State of Hawaii was a defendant in a lawsuit filed by the Office of Hawaiian Affairs (OHA) related to the determination of ceded land payments due to OHA. During 2006, the State of Hawaii Supreme Court reaffirmed the dismissal of the lawsuit by OHA.

Included in Harbor operations expenses in the accompanying Statement of Revenues, Expenses and Changes in Net Assets for the fiscal year ended June 30, 2007 are $7,112,000 of OHA ceded land expenses.

14. Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Harbors Division, after deducting any amounts pledged, charged or encumbered for the payment of bonds and interest during the fiscal year. The assessments amounted to $3,024,000 for the fiscal year ended June 30, 2007.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to $1,493,000 for the fiscal year ended June 30, 2007.

The Harbors Division incurred costs of $1,710,000 for fireboat operation services provided by the City and County of Honolulu during the fiscal year ended June 30, 2007.

The Hawaii Harbors Task Force was formed in April 2005 by the Governor's office to respond on a priority basis to the pressing demands for infrastructure improvements in Honolulu Harbor. The Aloha Tower Development Corporation was tasked to work in partnership with the Harbors Division and has been assigned to lead implementation efforts to develop harbor infrastructure on a priority basis. The executive officer of the ATDC serves as the chief executive of the Hawaii Harbors Project Office. ATDC is leading efforts to plan and execute major long term redevelopment projects such as the former Kapalama Military Reservation and various projects at Honolulu Harbor. Efforts are also underway to expand the role and authority of the partnership led by ATDC on a state-wide basis.

15. 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, the Harbors Division entered into a lease with ATDC for certain portions of the Aloha Tower complex. ATDC is required annually to reimburse the Harbors Division for any losses in revenues during the term of the lease caused by any action of ATDC or the developer and to provide replacement facilities for maritime activities at no cost to the Harbors Division.

15. Aloha Tower Complex Development (continued)

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. The sublease required the developer to construct, at the developer's cost, various facilities including a Marketplace. The developer and the Harbors Division entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement). The Operations Agreement allows the Harbors Division to operate the harbor facilities.

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

On January 18, 2006, an Agreement Amending the Aloha Tower Project Memorandum of Understanding and Aloha Tower Ground Lease was executed, effective as of June 30, 2005, and retroactive to July 1, 2004 (the "Amendment"). The Amendment requires ATDC to pay $225,000 as a minimum annual base payment for losses in revenues owing in the fiscal year beginning July 1, 2004. From July 1, 2005, subject to the approval of the Deputy Director for the Harbors Division, the base payment of $225,000 is to be reduced by expenses incurred by ATDC for the Hawaii Harbors Project Office. The Amendment also requires an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the "equity payment"), provided that if the equity payment exceeds two and on-half times the actual operating expenses of ATDC for such fiscal year, ATDC must make a supplemental payment equal to 75% of the difference between the equity payment and the product of two and one-half times the actual operating expenses of ATDC. Theses payments are to be applied to reduce the amount owed to the Harbors Division for losses in revenues by ATDC prior to July 1, 2004. The balance owed to the Harbors Division by ATDC as of June 30, 2007 was $7,770,626 and is included in notes receivable in the accompanying Statement of Net Assets.

16. Transfer of Land to Other State Agencies

In the 1990 legislative session, the State Legislature enacted Act 86, which transferred certain lands at Kewalo Basin and Fort Armstrong under the jurisdiction of the Harbors Division to the Hawaii Community Development Authority (HCDA), a state agency which oversees the development of the Kakaako Community Development District (District).

Approximately 73 acres of the Harbors Division’s land was transferred to HCDA under Act 86. Act 86 provides for HCDA to ensure due and adequate satisfaction of provisions for any covenant between the State or any county or any department or board thereof and the holders of bonds issued by the State or such county, department or board, if any.

As part of HCDA’s development of the District, the western portion of the Kewalo Basin area is scheduled for redevelopment. The Harbors Division has long been negotiating with HCDA to resolve issues relating to the Harbors Division’s continued operation and management of Kewalo Basin until HCDA was ready to proceed with its redevelopment plans. By an informal understanding, the Harbors Division retained all revenues generated from its management of Kewalo Basin and continued to manage maritime operations and provide for maintenance and capital improvements during this interim period. The Harbors Division June 30, 2006 financial statements were restated to reflect the transfer of the Kewalo Basin capital assets acquired prior to 1991 with a net book value of approximately $1,400,000, and the transfer of Piers 1 and 2 with a net book value of approximately $4,500,000. Kewalo Basin capital assets acquired or constructed by the Harbors Division subsequent to 1991 continue to be reflected as assets of the Harbors Division until issues relating to the termination of the Harbors Division management of Kewalo Basin is resolved.

Due to the importance to preserve Piers 1 and 2 at Honolulu Harbor to support maritime needs, Act 165, SLH 2006, was enacted an July 1, 2006 to remove this area from the jurisdiction of HCDA and convey authority back to the Harbors Division. Accordingly, Piers 1 and 2 were transferred back to the Harbors Division during fiscal 2007 at a net book value of approximately $4,400,000.

17. Kapalama Land Development

Between 1990 and 1993, the State acquired three parcels of land totaling approximately 61.8 acres within the Kapalama Military Reservation area, comprised primarily of areas adjacent or near to Piers 39 through 41 at Honolulu Harbor (the "KMR site"). Governor's Executive Order No. 3497 set aside two parcels comprising 40.6 acres to the Harbors Division for harbor purposes on September 24, 2002. The set-aside of the remaining 21.2-acre parcel is pending. This parcel was purchased for approximately $34.9 million and involved the use of approximately $8.2 million of the Department of Transportation, Airports Division's (Airports Division) funds. There have been ongoing efforts between the Harbors Division and Airports Division to designate the portion of the parcel to be used for their respective purposes. Discussions have also been explored regarding the possibility of the Airports Division selling its interest in the parcel to the Harbors Division. As a result, action on the issuance of a further Executive Order for the remaining parcel has been deferred until the matter could be resolved.

Plans for the future development of the KMR site will involve the creation of a new cargo container yard and vessel berthing piers. In support of this development effort, the Harbors Division established the Hawaii Harbors Project Office to lead and coordinate the development of the KMR site improvements. Legal advice has been rendered that current efforts seeking an Executive Order for the remaining parcel as noted above should cease and that in order to transfer Airports Division's interest in the KMR site to Harbors, Airports Division must be repaid $8.2 million, the amount it contributed to the purchase price of the KMR site.

The Harbors Division is also seeking the transfer of approximately 11.344 acres of ceded lands that were previously promised to the Airports Division near the KMR site to consolidate the lands needed for the future development. Resolution of these matters is dependent upon compliance by the Airports Division and cooperating state agencies with the recommendation and requirements of the Federal Aviation Administration.

18. Arbitrage

The Harbors Division is required to annually calculate rebates to the U.S. treasury on the harbor revenue bonds issued from 1986. In accordance with the requirements of Section 148 of Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been

18. Arbitrage (continued)

earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2007, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

19. Contingencies

Environmental Issues

The Harbors Division is subject to laws and regulations relating to the protection of the environment. The Harbors Division has been identified by the State Department of Health as a potentially responsible party, for petroleum contamination in the Honolulu Harbor/Iwilei area. Pursuant thereto, the Harbors Division entered into a voluntary agreement with the Department of Health and other third parties to share in the responsibility for the investigation and potential remediation of petroleum contamination in the Iwilei District. This group of potentially responsible parties known as the Iwilei District Participating Parties ("IDPP"), has conducted various investigations to determine potential contamination in the Iwilei area from 1997 to present, which investigations have determined the existence of petroleum contamination at various locations. Potential remedial alternatives are still being studied. At this stage, the project has not yet advanced to the stage where total costs to the IDPP can reasonably be estimated, due to (1) the extent of environmental impact, (2) the undetermined allocation among the potentially responsible parties, (3) the ongoing review of reasonable remediation alternatives, and (4) continued discussion with the regulatory authorities. As a result, it is not possible to reasonably estimate the amount of the potential cost to the IDPP and of the share of the Harbor's Division; and if there would be a material impact to the Harbor's Division's financial statements. Accordingly, no estimate of loss has been recorded in the accompanying financial statements.

Litigation

The Harbors Division is subject to a number of lawsuits arising in the ordinary course of its operations. While the ultimate liabilities, if any, in the disposition of these matters are presently difficult to estimate, it is management's belief that the outcomes are not likely to have a material adverse effect on the Harbors Division's financial position. Accordingly, no provisions for any liabilities that might result have been made in the accompanying financial statements.

Supplementary Information

Schedule 1

State of Hawaii
Department of Transportation
Harbors Division

Cash and Cash Equivalents of the Public Undertaking

June 30, 2007

Unrestricted cash and cash equivalents	$ 134,227,965
Restricted cash and cash equivalents	
For construction	112,612,851
For revenue bond debt service payments	15,634,909
For security deposits	3,482,050
For revenue bond harbors reserve and contingency account	10,897,658
	142,627,468
	$ 276,855,433
With Director of Finance, State of Hawaii	276,839,933
On hand	15,500
Total	$ 276,855,433

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking

Fiscal Year Ended June 30, 2007

		Additions by source of funds				
Project	Balance at July 1, 2006	Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized interest	Transfer out	Balance June 30, 2007
Statewide:						
Environmental Consultant for Commercial Harbors	$ 23,899	$ 1,152	$ –	$ 1,087	$ –	$ 26,138
Various Special Maintenance Projects	–	29,742	–	677	–	30,419
Various Commercial Harbors Improvements	559,882	56,555	–	24,870	–	641,307
Screening Equipment for Neighbor Island Passenger Terminals	8,245	13,664	–	581	–	22,490
Maritime Workers Identification System	18,773	7,404	–	925	–	27,102
Security Surveillence System for Neighbor Island Passenger Terminals	25,759	12,606	–	1,220	–	39,585
Installation of Septic System at Harbor Agent's Office, Kalaeloa BP & Instal. Lift Station & Force Main at Port Allen	74,057	15,340	–	3,530	–	92,927
Inter-Island Ferry System	966,458	969,439	–	63,698	–	1,999,595
Inter-Island Ferry System Site Improvements, Honolulu & Kahului Harbors	–	230,872	851,708	24,607	–	1,107,187
Statewide Petroleum Facilities Development Plan	–	88,050	–	2,003	–	90,053
Barges & Vehicle Ramp Systems for Inter-Island Ferry Service	9,493,713	37,163	27,618,371	1,981,453	39,130,700	–
Planning & Development of State Commercial Harbors	–	499,484	–	11,363	–	510,847
Subtotal carried forward	$ 11,170,786	$ 1,961,471	$ 28,470,079	$ 2,116,014	$ 39,130,700	$ 4,587,650

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance at July 1, 2006	Additions by source of funds: Harbor Special Fund	Additions by source of funds: Harbor Revenue/GO Bonds	Additions by source of funds: Capitalized interest	Transfer out	Balance June 30, 2007
Subtotal brought forward	$ 11,170,786	$ 1,961,471	$ 28,470,079	$ 2,116,014	$ 39,130,700	$ 4,587,650
Statewide (continued):						
Consulting Engineer's Report on the Public Undertaking	–	36,394	–	–	–	36,394
Site Surveying Services Statewide	–	4,538	–	–	–	4,538
Honolulu Harbor:						
POL Study, Piers 19-35, Honolulu Harbor	–	335,340	–	–	335,340	–
Sand Island Tunnel Feasibility Study	1,134,033	(82,129)	–	–	1,051,904	–
Tank Farm Demolition & Pipeline Removal Near Pier 32	24,263	–	–	–	24,263	–
Sand Island Container Yard Reconstruction	2,354,140	482,857	3,500,350	192,595	–	6,529,942
Harbor Planning	263,547	–	–	–	263,547	–
Demolition of Storage Tanks Near Pier 19, Honolulu Harbor	–	(9,829)	–	–	(9,829)	–
Keehi Lagoon Channels Nav. Impr.	–	113	–	–	113	–
Lightpole Repairs at Sand Island Container Yards	–	128	–	–	128	–
Ferry Terminal at Pier 19	–	1,324	–	–	1,324	–
Pier 2 Cruise Ship Terminal	30,603,409	23,071	–	–	30,626,480	–
Environmental Risk Assessment Piers 36-38, Honolulu Harbor	(13,931)	9,537	–	–	–	(4,394)
Honolulu Harbor Petroleum Pipeline Management System	–	35,628	–	–	35,628	–
Installation of Bullrails at Honolulu Harbor & Kalaeloa BP Harbor	–	8,730	–	–	8,730	–
Subtotal carried forward	$ 45,536,247	$ 2,807,173	$ 31,970,429	$ 2,308,609	$ 71,468,328	$ 11,154,130

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance at July 1, 2006	Additions by source of funds: Harbor Special Fund	Additions by source of funds: Harbor Revenue/GO Bonds	Additions by source of funds: Capitalized interest	Transfer out	Balance June 30, 2007
Subtotal brought forward	$ 45,536,247	$ 2,807,173	$ 31,970,429	$ 2,308,609	$ 71,468,328	$ 11,154,130
Honolulu Harbor (continued):						
Dredging Ewa End of Piers 51A, Honolulu Harbor	–	4,378	–	–	4,378	–
Bulkhead Repairs at Pier 29, Honolulu Harbor	–	1,144,921	–	26,047	–	1,170,968
Air Conditioning Repairs at Harbors Administration Building	–	368,501	–	8,383	–	376,884
Environmental Remediations Piers 36-38	–	(9,536)	–	–	(9,536)	–
Video Monitoring System	89,606	–	–	–	89,606	–
Pile Repairs at Pier 40, Phase 2, Honolulu Harbor	–	368	–	–	368	–
Keehi Industrial Lots Drainage Improvements, Oahu	–	(8,000)	–	–	(8,000)	–
Security Surveillance System at Honolulu Harbor's Passenger Terminals	–	57	–	–	57	–
Reconstruction of Pier 51B Container Yard	597,054	28,038	2,020,979	70,087	–	2,716,158
Construction of Mooring Bollards at Piers 19-21	112,432	–	–	–	112,432	–
Planning Services for the Development of the New Kapalama Container Terminal	–	499,997	–	11,375	–	511,372
Crash Barriers Gates for Container Terminal	14,647	5,991	–	770	–	21,408
Channel Barrier	17,975	–	–	–	17,975	–
Substructure Repairs at Pier 2	668,798	3,974,821	–	120,134	–	4,763,753
Subtotal carried forward	$ 47,036,759	$ 8,816,709	$ 33,991,408	$ 2,545,405	$ 71,675,608	$ 20,714,673

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance at July 1, 2006	Additions by source of funds: Harbor Special Fund	Additions by source of funds: Harbor Revenue/GO Bonds	Capitalized interest	Transfer out	Balance June 30, 2007
Subtotal brought forward	$ 47,036,759	$ 8,816,709	$ 33,991,408	$ 2,545,405	$ 71,675,608	$ 20,714,673
Honolulu Harbor (continued):						
Ph I Environmental Site Assessment of the Former Kapalama Military Reserve Area	88,497	11,187	–	–	–	99,684
Installation of Radiation Portal Monitoring System at Ft Armstrong, Honolulu Harbor	–	139,177	–	–	139,177	–
Perimeter Fencing Improvement at Honolulu & Kalaeloa BPT Harbors	8,959	7,663	–	558	–	17,180
Methane Mitigation, Pier 38, Lease Parcel 8	496,418	296,580	–	21,569	814,567	–
Construction of CBP Facilities and Misc Improvement for Pier 2 Cruise Terminal	154,355	390,047	–	15,521	–	559,923
Lead Based Paint Removal at Harbors Admin Building	–	90	–	–	90	–
Methane Mitigation Pier 38 Lease Parcel 9	7,146	112,166	–	1,433	120,745	–
Passenger gangway at Pier 2 Cruise Terminal	15,000	3,802	–	–	18,802	–
Extension of Pier 38 Fender System	15,489	1,722	–	717	–	17,928
Keehi Industrial Park Dust Mitigation	52,233	8,921	–	2,491	–	63,645
Subtotal carried forward	$ 47,874,856	$ 9,788,064	$ 33,991,408	$ 2,587,694	$ 72,768,989	$ 21,473,033

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance at July 1, 2006	Additions by source of funds: Harbor Special Fund	Additions by source of funds: Harbor Revenue/GO Bonds	Additions by source of funds: Capitalized interest	Transfer out	Balance June 30, 2007
Subtotal brought forward	$ 47,874,856	$ 9,788,064	$ 33,991,408	$ 2,587,694	$ 72,768,989	$ 21,473,033
Honolulu Harbor (continued):						
Pier 2 Cruise Terminal Improvements	545,574	481,566	–	35,136	–	1,062,276
Pier 29 Extension	17,919	218,284	–	5,753	–	241,956
Pier 1 Lighting Improvements	181,805	2,444,278	–	63,674	–	2,689,757
Partial Shed Demolition, Pier 1	1,186	–	–	–	1,186	–
Replacement of Fort Street Security Barriers at Pier 11	4,771	4,629	–	315	–	9,715
Condominium Property Regime, Piers 30-38	116,693	22,878	–	–	–	139,571
Historic Documentation for the Development of the New Kapalama Container Terminal	–	126,162	–	2,870	–	129,032
General Engineering Services for the Development of the New Kapalama Container Terminal	–	55,675	–	1,267	–	56,942
Methane Mitigation Piers 36-38, Lease Parcels 3, 4, 5 & 6	3,501	32,763	–	901	–	37,165
Barge Terminal Improvements at Piers 39 and 40	–	302,614	–	6,884	–	309,498
Kewalo Basin:						
Demolition of Former GRG Enterprise	408,908	4,415	–	–	413,323	–
Subtotal carried forward	$ 49,155,213	$ 13,481,328	$ 33,991,408	$ 2,704,494	$ 73,183,498	$ 26,148,945

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance at July 1, 2006	Additions by source of funds: Harbor Special Fund	Additions by source of funds: Harbor Revenue/GO Bonds	Additions by source of funds: Capitalized interest	Transfer out	Balance June 30, 2007
Subtotal brought forward	$ 49,155,213	$ 13,481,328	$ 33,991,408	$ 2,704,494	$ 73,183,498	$ 26,148,945
Kalaeloa Barbers Point Harbor:						
Modifications of Pier	840,154	–	–	–	–	840,154
Extend Perimeter Lighting to Pier P-9	273,969	3,779	–	–	277,748	–
Installation of Septic System	824	1,807	–	68	–	2,699
Kahului Harbor:						
Barge Terminal Improvement-Shed Demolition, Pier 2A Strengthening	–	17	–	–	17	–
Pier 1-C Extension	3,124	–	–	–	3,124	–
Environmental Assessment Master Plan	161,005	–	–	–	–	161,005
Pier 1C Comfort Station, Waterline and Sewerline Improvements	2,228,136	217,100	–	60,001	2,505,237	–
Upgrade Perimeter Fencing	345,238	81,266	–	10,824	437,328	–
Reconstruction of Puunene Container Yard	2,280,233	46,269	1,600,798	80,278	4,007,578	–
Replacement of Piers 2 & 3 Bull Rails	6,822	97,888	–	2,524	–	107,234
Demolition of Wharf Street Shed, Kahului Harbor	–	2,024,098	–	–	2,024,098	–
Miscellaneous Site Work at Inter-Island Barge Terminal	–	9,880	–	206	–	10,086
Subtotal carried forward	$ 55,294,718	$ 15,963,432	$ 35,592,206	$ 2,858,395	$ 82,438,628	$ 27,270,123

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

		Additions by source of funds				
Project	Balance at July 1, 2006	Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized interest	Transfer out	Balance June 30, 2007
Subtotal brought forward	$ 55,294,718	$ 15,963,432	$ 35,592,206	$ 2,858,395	$ 82,438,628	$ 27,270,123
Kahului Harbor (continued):						
Demolition of the Pier 2 Shed and Miscellaneous Site Work at Inter-Island Barge Terminal	–	2,522,032	–	52,592	2,574,624	–
Pave Former Wharf Street Shed Site, Kahului Harbor	–	8,648	–	197	–	8,845
Kaumalapau Harbor:						
Breakwater Repair	3,113,400	417	–	133,658	–	3,247,475
Kaunakakai Harbor:		–		–	–	–
Commuter Ferry System Improvements	102,822	99	–	4,565	–	107,486
Hilo Harbor:						
Pier 1 Shed Modifications	–	12,111	–	–	12,111	–
Pier 3 Breasting Dolphins and Catwalks	2,731,399	724,669	850,915	89,665	4,396,648	–
Interisland Barge Terminal Facility	99,896	1,039	–	3,188	–	104,123
Geotechnical Engineering Study	279	–	–	–	–	279
Subtotal carried forward	$ 61,342,514	$ 19,232,447	$ 36,443,121	$ 3,142,260	$ 89,422,011	$ 30,738,331

Schedule 2

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

		Additions by source of funds				
Project	**Balance at July 1, 2006**	**Harbor Special Fund**	**Harbor Revenue/GO Bonds**	**Capitalized interest**	**Transfer out**	**Balance June 30, 2007**
Subtotal brought forward	$ 61,342,514	$ 19,232,447	$ 36,443,121	$ 3,142,260	$ 89,422,011	$ 30,738,331
Hilo Harbor (continued):						
Upgrade of Perimeter Fencing	861	–	–	–	861	–
Construction of Inter-Island Cargo Terminal Facility	75,305	806,794	–	21,658	–	903,757
Kawaihae Harbor:						
Modification project	504,677	48,027	–	–	–	552,704
State Planning & Research (SPR) Project: Characterization of Voids & Other Subsurface Deficiencies by Geophysical Methods	–	272	–	–	–	272
Bathymetric and Underwater Survey at Pier 1	448	26,748	–	628	–	27,824
Nawiliwili Harbor:						
Environmental Risk Assessment	128,811	421	–	5,054	–	134,286
Pier 2 extension	965,060	186,931	2,246,013	92,561	–	3,490,565
Nawiliwili Harbor Channel Modifications Feasibility Study	242,752	345	–	10,238	–	253,335
Kauai Commercial Harbors 2020 Master Plan	198,496	–	–	–	–	198,496
Subtotal carried forward	$ 63,458,924	$ 20,301,985	$ 38,689,134	$ 3,272,399	$ 89,422,872	$ 36,299,570

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance at July 1, 2006	Additions by source of funds: Harbor Special Fund	Additions by source of funds: Harbor Revenue/GO Bonds	Additions by source of funds: Capitalized interest	Transfer out	Balance June 30, 2007
Subtotal brought forward	$ 63,458,924	$ 20,301,985	$ 38,689,134	$ 3,272,399	$ 89,422,872	$ 36,299,570
Nawiliwili Harbor (continued):						
Replacement of Pier 3 Fendering System	2,158,437	16,278	–	–	2,174,715	–
Upgrade of Perimeter Fencing at Nawiliwili Harbor	–	35	–	–	35	–
Port Allen:						
Installation of Lift Station and Force Main	3,274	–	–	–	3,274	–
	$ 65,620,635	$ 20,318,298	$ 38,689,134	$ 3,272,399	$ 91,600,896	$ 36,299,570

State of Hawaii
Department of Transportation
Harbors Division

Revenue Bonds of the Public Undertaking

Year Ended June 30, 2007

	Final redemption date	Interest rate	Orignal amount of issue	Balance at June 30, 2007 Current	Noncurrent	Total
Issue of 1997	July 1, 2027	3.95-5.75%	$ 56,290,000	$ 540,000	$ 51,865,000	$ 52,405,000
Issue of 2000	July 1, 2029	4.50-6.00%	79,405,000	2,370,000	61,520,000	$ 63,890,000
Issue of 2002	July 1, 2019	3.00-5.50%	24,420,000	2,205,000	13,985,000	$ 16,190,000
Issue of 2004	January 1, 2024	2.50-6.00%	52,030,000	4,805,000	34,140,000	$ 38,945,000
Issue of 2006	January 1, 2031	4.00-5.25%	96,570,000	2,105,000	92,505,000	$ 94,610,000
			$ 308,715,000	$ 12,025,000	$ 254,015,000	$ 266,040,000

Schedule 4

State of Hawaii
Department of Transportation
Harbors Division

Income From Operations before Depreciation

Year Ended June 30, 2007

		District										
		Oahu			Hawaii		Maui			Kauai		
	Statewide	**Honolulu**	**Kalaeloa**	**Kewalo**	**Hilo**	**Kawaihae**	**Kahului**	**Kaunakakai**	**Kaumalapau**	**Nawiliwili**	**Port Allen**	**Total**
Operating revenues, net:												
Services:												
Wharfage	$ –	$ 30,111,721	$ 1,591,286	$ –	$ 1,903,378	$ 2,214,193	$ 4,180,235	$ 163,143	$ –	$ 1,669,614	$ –	$ 41,833,570
Pax debark/embark	–	2,378,126	–	–	1,303,945	–	765,020	–	–	1,066,610	–	5,513,701
Dockage	–	3,758,012	553,060	–	450,813	47,167	878,311	38,929	–	719,690	8,213	6,454,195
Demurrage	–	595,933	1,301	–	89,992	93,768	226,633	–	–	112,836	–	1,120,463
Port Entry	–	762,776	112,690	94	132,244	34,119	140,281	12,494	–	101,956	3,044	1,299,698
Mooring charges	–	312,109	–	685,101	30,286	–	581	1,990	–	–	356,837	1,386,904
Cleaning charges	–	257,142	1,210	(530)	–	–	3,009	–	–	25,736	2,085	288,652
Other services	–	131,059	23,805	3,097	1,546	8,418	2,452	257	–	4,970	3,000	178,604
Total services	–	38,306,878	2,283,352	687,762	3,912,204	2,397,665	6,196,522	216,813	–	3,701,412	373,179	58,075,787
Rentals:												
Wharf space & land	–	15,698,447	1,106,550	439,257	114,807	168,395	249,459	13,877	300	383,855	192,026	18,366,973
Storage	–	2,318,520	36,471	7,770	119,373	135,226	269,213	2,113	–	317,584	17,776	3,224,046
Automobile parking	–	1,029,799	–	30,404	89,401	5,903	82,037	–	–	82,821	15,464	1,335,829
Pipeline water	–	129,509	26,130	–	56,138	–	98,876	–	–	57,837	–	368,490
Pipeline (non water)	–	453,167	752,881	–	416,517	25,975	457,601	13,662	–	68,405	45,787	2,233,995
Total rentals	–	19,629,442	1,922,032	477,431	796,236	335,499	1,157,186	29,652	300	910,502	271,053	25,529,333
Others:												
Sale of utilities	–	689,220	139,402	22,826	76,539	5,598	218,684	–	–	55,531	3,690	1,211,490
Miscellaneous	–	776,638	3,649	30,039	8,445	712	3,661	19,531	–	809	2,456	845,940
Total others	–	1,465,858	143,051	52,865	84,984	6,310	222,345	19,531	–	56,340	6,146	2,057,430
Total operating revenue	–	59,402,178	4,348,435	1,218,058	4,793,424	2,739,474	7,576,053	265,996	300	4,668,254	650,378	85,662,550
Operating expenses before depreciation:												
Personal services	4,223,928	6,020,898	103,661	118,474	743,960	56,126	912,954	51,597	–	760,120	10,909	13,002,627
Harbor Operations	7,270,997	6,154,329	507,670	803,327	299,426	295,121	549,382	12,565	360	526,150	22,842	16,442,169

Schedule 4

State of Hawaii
Department of Transportation
Harbors Division

Income From Operations before Depreciation (continued)

		District										
		Oahu			Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Kewalo	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating expenses before depreciation (continued):												
Maintenance	321,313	4,533,639	96,382	107,501	230,118	350,365	798,122	741,423	176,355	871,732	243,708	8,470,658
State of Hawaii, surcharge for central service expenses	3,024,439	–	–	–	–	–	–	–	–	–	–	3,024,439
Fireboat operations	–	1,709,572	–	–	–	–	–	–	–	–	–	1,709,572
General administration	1,212,164	599,958	741	4,710	15,059	2,433	11,000	545	–	362	1,079	1,848,051
Department of Transportation, general administration expenses	1,493,490	–	–	–	–	–	–	–	–	–	–	1,493,490
Operating expenses	17,546,331	19,018,396	708,454	1,034,012	1,288,563	704,045	2,271,458	806,130	176,715	2,158,364	278,538	45,991,006
Allocation of statewide expenses (1)	(17,546,331)	12,167,397	890,694	249,496	981,841	561,129	1,551,809	54,484	61	956,202	133,218	–
Total operating expenses	–	31,185,793	1,599,148	1,283,508	2,270,404	1,265,174	3,823,267	860,614	176,776	3,114,566	411,756	45,991,006
Income from Operations before depreciation	$ –	$ 28,216,385	$ 2,749,287	$ (65,450)	$ 2,523,020	$ 1,474,300	$ 3,752,786	$ (594,618)	$ (176,476)	$ 1,553,688	$ 238,622	$ 39,671,544

NOTES:

(1) Statewide expenses are allocated to the harbors based upon their respective current-year operating revenues to total current year operating revenues for all harbors.

State of Hawaii
Department of Transportation
Harbors Division

Harbor Revenue Bonds 1997 Certificate - Minimum Net Revenue Requirement of the Public Undertaking

Year Ended June 30, 2007

Net revenues, as defined by the 1997 Certificate:	
Operating income before depreciation	$ 39,671,544
Add:	
Interest income	11,751,112
State of Hawaii, surcharge for central service expenses	3,024,439
Cash available in the harbor reserve and contingency account	10,897,658
	$ 65,344,753
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments for the immediately ensuing 12 months	$ 25,364,269
Ratio of net revenues to harbor revenue bond debt service requirements	2.58

State of Hawaii
Department of Transportation
Harbors Division

Accounts Receivable Aging

June 30, 2007

	Total	Current	30 Days	60 Days	90 Days
Accounts receivable	$ 10,917,389	$ 8,506,753	$ 150,975	$ 73,877	$ 2,185,784