STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
HARBORS DIVISION

Financial Statements and Schedules of the Public Undertaking
Fiscal Years Ended June 30, 2003 and 2002
(With Independent Auditors' Report Thereon)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
HARBORS DIVISION

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HARBORS DIVISION

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INDEPENDENT AUDITORS' REPORT

To the Director
Department of Transportation
State of Hawaii

We have audited the accompanying statements of net assets of the Harbors Division, Department of Transportation of the State of Hawaii, relating to the Public Undertaking (Harbors Division) as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the fiscal years then ended. 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 audits.

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

As discussed in Note A, 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, 2003, and the changes in its financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbors Division as of June 30, 2003 and 2002, and the changes in its net assets and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note O to the financial statements, the State of Hawaii is a defendant in a lawsuit filed by the Office of Hawaiian Affairs (OHA) related to the inclusion of certain proprietary revenues received by the State of Hawaii through the Harbors Division in the determination of ceded lands payments due to OHA.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2003, 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, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Auditing Standards Board. 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 for the fiscal year ended June 30, 2003, was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 8 for the fiscal year ended June 30, 2003, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole for the fiscal year ended June 30, 2003.

Nishihama & Kishida, CPA's, Inc.

Honolulu, Hawaii
October 20, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 during the fiscal year ended June 30, 2003. Please read it in conjunction with the Harbors Division's financial statements, 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.

Despite the events of the September 11 terrorist attack on the U.S. in 2001, the war in Iraq and economic uncertainties in Asia which have affected Hawaii's tourist-based economy, the harbors system demonstrated steady revenues for the fiscal year ended June 30, 2003.

FINANCIAL HIGHLIGHTS

- The Harbors Division's net assets increased by $15.5 million or three percent.
- Operating revenues increased by $3.9 million or six percent over the prior fiscal year.
- Total expenses for the fiscal year increased by approximately $16 million or 34 percent over the prior fiscal year.

Hawaii is becoming an increasingly popular cruise destination and harbors at Honolulu, Kahului, Hilo, and Nawiliwili, have seen increased passenger activity. Approximately 1.6 million passengers (inbound and outbound) passed through these harbors in fiscal year 2003, an increase of 60% over fiscal year 2002's passenger count of approximately 1 million. Norwegian Cruise Line recently announced plans to position three ships in the Hawaii market in 2004 and further expansion of this industry is anticipated. Fiscal Year 2003 passenger fees increased 54% over fiscal year 2002, from $2.6 million to $4 million. This growing cruise traffic presents a business opportunity to the harbors as well as challenges to upgrade facilities to accommodate increased passenger counts.

The majority of operating revenues are directly related to cargo and ship operations. Total operating revenues increased by 6% from $66.2 million in fiscal year 2002 to $70.1 million in fiscal year 2003. Service revenues including wharfage, dockage and passenger fees generated $45.3 million in fiscal year 2003, an increase of $2.3 million or 5.2% over fiscal year 2002. Rental revenues in fiscal year 2003 were $24.2 million, an increase of $2.2 million or 10% over fiscal year 2002.

Operating expenses excluding depreciation increased by 59% from $23.3 million in fiscal year 2002 to $37.1 million in fiscal year 2003. This increase of $13.8 million is primarily due to ceded land assessments of $11.6 million made by the Harbors Division in the fiscal year. The Harbors Division was directed to suspend payment of ceded land assessments effective as of the first quarter of fiscal year 2002 as a result of a Hawaii Supreme Court ruling. No payment was made for ceded land assessments for fiscal year 2002. On January 10, 2003, and pending legislative action to establish a mechanism, the Governor issued Executive Order 03-03 directing state departments to resume payments on ceded lands. The 2003 State Legislature subsequently passed Act 34, SLH 2003, which authorized the transfer of funds for ceded land payments that were suspended as result of the earlier Hawaii Supreme Court ruling. As a result, the Harbors Division transferred ceded land payments of $11.6 million in fiscal year 2003 which covered the two fiscal periods. The remaining $2.2 million increase in operating expenses was due to increases in payroll costs, utilities, security, surcharge, insurance and increases in other operational costs.

A summary of operations and changes in net assets for the fiscal years ended June 30, 2003 and 2002 follows:

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

	2003	2002	Dollar Change	Percent Change
Operating revenues	$ 70,103	$ 66,166	$ 3,937	6 %
Nonoperating revenues	5,043	5,964	(921)	(15) %
Total revenues	75,146	72,130	3,016	4 %
Depreciation	13,366	11,591	1,775	15 %
Other operating expenses	37,119	23,333	13,786	59 %
Nonoperating expenses	11,669	11,392	277	2 %
Total expenses	62,154	46,316	15,838	34 %
Income before capital contributions	12,992	25,814	(12,822)	(50) %
Capital contributions	2,542	932	1,610	173 %
Increase in net assets	$ 15,534	$ 26,746	$ (11,212)	(42) %

A condensed summary of the Harbors Division's net assets at June 30, 2003 and 2002 is shown below:

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

	2003	2002	Dollar Change	Percent Change
Current and other assets	$ 181,023	$ 174,503	$ 6,520	4 %
Capital assets	584,206	583,017	1,189	0 %
Total assets	765,229	757,520	7,709	1 %
Long-term debt outstanding	203,915	211,447	(7,532)	(4) %
Other liabilities	40,626	40,919	(293)	(1) %
Total liabilities	244,541	252,366	(7,825)	(3) %
Net assets				
Invested in capital assets, net of related debt	364,800	356,261	8,539	2 %
Unrestricted	155,888	148,893	6,995	5 %
Total net assets	$ 520,688	$ 505,154	$ 15,534	3 %

The largest portion of the Harbors Division's net assets (70% at June 30, 2003) 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 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 Harbors Division's financial position. The total assets exceed liabilities by approximately $521 million at June 30, 2003, and net assets increased by approximately $16 million from June 30, 2002.

BUDGETARY ANALYSIS

The Harbors Division prepares an operating budget that is approved by the State Legislature with the enactment of an appropriations act. A budget comparison and analysis is presented below as additional financial information:

Table 3
Budget Variance
(in thousands of dollars)

	2003			
	Budget	Actual	Under (over) Budget	Percent Change
Personal services	$ 10,966	$ 10,312	$ 654	6 %
Other operating expenditures	44,298	39,432	4,866	11 %
Ceded land assessment	5,509	5,509	–	0 %
Total operating expenditures	$ 60,773	$ 55,253	$ 5,520	9 %

The variance between budget and actual in personal services was due to savings caused by delays in the recruitment and filling of vacant positions. The variance in other operating expenses was due to reduced debt service, deferral of special maintenance projects and savings in service contracts and other operational expenses. Act 34, Session Laws of Hawaii 2003, authorized the Harbors Division to pay $5.5 million for ceded land assessments for fiscal year 2002. As a result, the Harbors Division made payments in fiscal year 2003 for ceded land assessments covering two fiscal years.

The events of September 11 has led to an increased national emphasis on maritime security. The Harbors Division has reprioritized its capital improvements program to focus on safety and security concerns. These projects include improved surveillance systems, structures to better restrict facility access and other measures to improve maritime security. Over $1 million in federal grants were approved by the Department of Homeland Security in fiscal year 2003 to assist the Harbors Division in funding security enhancements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2003, the Harbors Division had $584.2 million invested in capital assets as shown in Table 4. There was a net increase (additions, deductions and depreciation) of $1.2 million from the end of the prior fiscal year.

Table 4
Capital Assets
(in thousands of dollars)

	2003	2002	Dollar Change	Percent Change
Land and land improvements	$ 347,038	$ 345,891	$ 1,147	0 %
Wharves	190,499	189,532	967	1 %
Other improvements	74,636	74,152	484	1 %
Buildings and improvements	48,425	42,347	6,078	14 %
Equipment	10,876	11,037	(161)	(1) %
Subtotal	671,474	662,959	8,515	1 %
Less: Accumulated depreciation	(144,101)	(130,914)	(13,187)	10 %
Subtotal	527,373	532,045	(4,672)	(1) %
Construction in progress	56,833	50,972	5,861	11 %
Total	$ 584,206	$ 583,017	$ 1,189	0 %

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2003, included the following:

- $4.8 million in building and site improvements for the domestic commercial fishing village at Pier 36, Honolulu Harbor;
- $200,000 in driveway access and parking lot at Sand Island container terminal; and
- $1.3 million to pave the former molasses tank area near Pier 2 in Hilo Harbor.

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

- $782,000 to demolish existing shed at Piers 24-29 for future improvements;
- $6.4 million in pier improvements for the domestic commercial fishing village at Pier 38;
- $4.3 million to construct a ferry terminal at Pier 19;
- $8.6 million to extend Pier 1c in Kahului Harbor; and
- $2.7 million to reconstruct the Pier 3 container yard at Kahului Harbor.

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

- Container yard strengthening at Piers 51C – 53;
- Construction of Pier 2 Cruise Terminal;
- Pier 3 Breasting Dolphins at Hilo Harbor; and
- Pier 2 extension at Nawiliwili Harbor.

The Harbors Division is committed under contracts awarded for construction totaling approximately $21 million.

Credit Rating And Bond Insurance

All harbor revenue bonds issued since 1993 have been issued with bond insurance. There was no change in credit ratings for harbor revenue bonds during the fiscal year ended June 30, 2003, which were as follows:

Bond Series	Standard & Poor's Corporation	Moody's Investors Service	Fitch IBCA, Inc.
1993	AAA	Aaa	
1994	AAA	Aaa	
1997	AAA	Aaa	
2000	AAA	Aaa	AAA
2002		Aaa	AAA

Standard and Poor's Corporation defines "AAA" bond ratings as having the highest level of protection against losses from credit defaults.

Moody's Investors Service defines "Aaa" bond ratings as being of the highest quality rating with the smallest degree of investment risk. An "Aaa" rating states that interest payments are protected by a large or by an exceptionally stable margin and principal is secure.

Fitch IBCA, Inc. defines "AAA" bond ratings as having an extremely strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.

Ratings made by Standard and Poor's Corporation, 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 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 1.35 or 1.25 times the debt service requirements under the 1990 and 1997 Harbor Revenue Bond Certificates, respectively. The Harbors Division currently enjoys a coverage ratio of 5.45 under the 1990 Harbor Revenue Bond Certificate and 1.98 under the 1997 Harbor Revenue Bond Certificate as compared to the prior fiscal year's ratio of 5.01 and 2.48, respectively.

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 *glenn.okimoto@hawaii.gov.*

State of Hawaii
Department of Transportation
Harbors Division
STATEMENTS OF NET ASSETS OF THE PUBLIC UNDERTAKING
June 30, 2003 and 2002

	2003	2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Notes B and C)	$ 90,878,197	$ 82,403,250
Receivables		
Accounts receivable, less allowance for doubtful accounts of $7,912,000 in 2003 and $7,635,000 in 2002	6,437,562	6,445,895
Interest	797,675	1,616,876
Grant	1,744,878	2,123,343
Other	309,234	--
Materials and supplies, at cost	37,596	41,746
Prepaid insurance and others	23,800	23,800
Total current assets	100,228,942	92,654,910
RESTRICTED ASSETS		
Current		
Cash and cash equivalents (Notes B and C)	59,656,681	60,719,026
Total current restricted assets	59,656,681	60,719,026
Net investment in direct financing lease (Note H)	18,768,174	18,639,945
Total restricted assets	$ 78,424,855	$ 79,358,971

State of Hawaii
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STATEMENTS OF NET ASSETS OF THE PUBLIC UNDERTAKING (Continued)
June 30, 2003 and 2002

	2003	2002
ASSETS		
HARBOR FACILITIES		
Non-depreciable facilities		
Land	$ 164,404,485	$ 164,404,485
Land improvements	74,223,157	74,038,474
Other improvements	66,908	66,908
	238,694,550	238,509,867
Depreciable facilities		
Land improvements	108,342,951	107,381,230
Wharves	190,499,253	189,532,262
Other improvements	74,636,071	74,152,446
Buildings	48,425,083	42,347,414
Equipment	10,875,730	11,036,479
	432,779,088	424,449,831
Less accumulated depreciation	144,100,884	130,914,211
	288,678,204	293,535,620
Construction in progress	56,833,027	50,971,396
	584,205,781	583,016,883
OTHER ASSET		
Unamortized bond issue costs	2,369,292	2,489,441
	$ 765,228,870	$ 757,520,205

State of Hawaii
Department of Transportation
Harbors Division
STATEMENTS OF NET ASSETS OF THE PUBLIC UNDERTAKING (Continued)
June 30, 2003 and 2002

	2003	2002
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES (payable from current assets)		
Accounts payable	$ 1,130,634	$ 997,481
Contracts payable, including retainages	447,902	761,252
Accrued vacation	2,007,192	1,711,623
Due to Department of Budget and Finance	1,261,993	1,741,993
Total current liabilities (payable from current assets)	4,847,721	5,212,349
CURRENT LIABILITIES (payable from restricted assets)		
Contracts payable, including retainages	1,560,477	1,749,974
Matured revenue bonds and interest payable	311,100	346,800
Revenue bonds payable, current maturities, less unamortized discount of $203,224 in 2003 and $208,283 in 2002 (Note F)	15,471,776	14,851,717
General obligation bonds payable, current maturities (Note I)	19,029	456,247
Accrued interest payable	5,914,893	5,827,888
Security deposits	2,500,658	2,473,661
Due to Department of Budget and Finance	9,999,893	9,999,893
Total current liabilities (payable from restricted assets)	35,777,826	35,706,180
LONG-TERM DEBT, LESS CURRENT MATURITIES		
Revenue bonds payable, less unamortized discount of $2,539,821 in 2003 and $2,743,045 in 2002, and unamortized deferred loss on refunding of $3,685,828 in 2003 and $3,999,430 in 2002 (Note F)	187,284,351	194,797,526
Special facility revenue bonds payable (Note H)	16,500,000	16,500,000
General obligation bonds payable (Note I)	130,743	149,772
Total long-term debt	203,915,094	211,447,298
Total liabilities	244,540,641	252,365,827
NET ASSETS		
Invested in capital assets, net of related debt	364,799,881	356,261,620
Unrestricted net assets	155,888,348	148,892,758
Total net assets	520,688,229	505,154,378
	$ 765,228,870	$ 757,520,205

See accompanying notes to financial statements.

State of Hawaii
Department of Transportation
Harbors Division
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS OF THE PUBLIC UNDERTAKING
Fiscal Years Ended June 30, 2003 and 2002

	2003	2002
OPERATING REVENUES		
Services	$ 45,297,596	$ 43,049,386
Rentals	24,195,148	21,994,528
Others	610,474	1,122,167
	70,103,218	66,166,081
OPERATING EXPENSES BEFORE DEPRECIATION		
Personal services	10,630,145	9,453,202
Harbor operations	14,084,110	2,049,259
Maintenance	6,350,229	4,491,761
State of Hawaii, surcharge for central service expenses	1,905,797	2,341,865
Fireboat operations	1,308,058	1,605,257
General administration	1,878,278	2,380,909
Department of Transportation, general administration expenses	962,692	1,011,208
	37,119,309	23,333,461
Income from operations before depreciation	32,983,909	42,832,620
DEPRECIATION	13,366,629	11,590,577
Income from operations	19,617,280	31,242,043
NONOPERATING INCOME (EXPENSE)		
Interest income		
Deposits in investment pool	3,965,819	4,706,731
Investment in direct financing lease	1,076,979	1,076,103
Interest expense (Note J)		
Revenue bonds	(9,362,393)	(9,758,131)
Special facility revenue bonds	(948,750)	(948,750)
General obligation bonds	(8,059)	(29,397)
Amortization of bond discount, issue costs and loss on refunding	(642,035)	(637,657)
Loss on disposal of harbor facilities	(707,439)	(18,267)
Other, net	--	181,135
	(6,625,878)	(5,428,233)
Net income before contributions	$ 12,991,402	$ 25,813,810

State of Hawaii
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS OF THE PUBLIC UNDERTAKING (Continued)
Fiscal Years Ended June 30, 2003 and 2002

	2003	2002
NET INCOME BEFORE CONTRIBUTIONS	$ 12,991,402	$ 25,813,810
CAPITAL CONTRIBUTIONS	2,542,449	931,703
INCREASE IN NET ASSETS	15,533,851	26,745,513
NET ASSETS AT BEGINNING OF FISCAL YEAR	505,154,378	478,408,865
NET ASSETS AT END OF FISCAL YEAR	$ 520,688,229	$ 505,154,378

See accompanying notes to financial statements.

State of Hawaii
Department of Transportation
Harbors Division
STATEMENTS OF CASH FLOWS OF THE PUBLIC UNDERTAKING
Fiscal Years Ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities		
Cash received from customers	$ 69,802,317	$ 64,698,651
Cash paid to suppliers	(26,728,939)	(14,444,161)
Cash paid to employees	(10,410,501)	(9,172,507)
Net cash provided by operating activities	32,662,877	41,081,983
Cash flows from capital and related financing activities		
Government grants received in aid of construction	2,920,914	--
Acquisition and construction of capital assets	(15,894,044)	(33,839,235)
Payments to refund revenue bonds	--	(24,116,596)
Bond issue costs paid	--	(428,169)
Principal paid on bonds	(7,906,947)	(7,353,140)
Interest paid on bonds	(10,232,197)	(11,428,977)
Proceeds from issuance of refunding revenue bonds	--	24,548,501
Net cash used in capital and related financing activities	(31,112,274)	(52,617,616)
Cash flows from investing activities		
Interest received on investments	5,861,999	6,040,576
Net cash provided by investing activities	5,861,999	6,040,576
NET DECREASE IN CASH AND CASH EQUIVALENTS	7,412,602	(5,495,057)
Cash and cash equivalents at beginning of fiscal year	143,122,276	148,617,333
Cash and cash equivalents at end of fiscal year	$ 150,534,878	$ 143,122,276

State of Hawaii
Department of Transportation
Harbors Division
STATEMENTS OF CASH FLOWS OF THE PUBLIC UNDERTAKING (Continued)
Fiscal Years Ended June 30, 2003 and 2002

	2003	2002
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	$ 19,617,280	$ 31,242,043
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	13,366,629	11,590,577
Provision for doubtful accounts	277,000	1,603,000
Other nonoperating income, net	--	181,135
Changes in assets and liabilities		
(Increase) decrease in:		
Receivables, net	(1,057,901)	(3,251,565)
Materials and supplies	4,151	5,220
Prepaid insurance and others	--	109,118
Increase (decrease) in:		
Payables	133,152	150,809
Accrued vacation	295,569	252,238
Payable to harbor user	--	(1,024,613)
Security deposits	26,997	224,021
Net cash provided by operating activities	$ 32,662,877	$ 41,081,983

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Amortization of bond discount, issue costs and loss on refunding amounted to $642,035 in 2003 and $637,657 in 2002.

See accompanying notes to financial statements.

NOTE A - 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 includes the Harbors Division's financial activities.

The "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor Capital Improvement Revenue Bonds," dated September 1, 1967 (1967 Certificate), "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor Revenue Bonds," dated November 15, 1990 (1990 Certificate), and "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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) ***Measurement focus and basis of accounting*** - The accounting policies of the Harbors Division conform to 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) ***Use of estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) ***Cash and cash equivalents*** - Cash and cash equivalents, for the purpose of the statements of cash flows, includes 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.

(4) ***Accounts receivable and allowance for doubtful accounts*** - Accounts receivable consists primarily of amounts due from third parties who rent harbor facilities, 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 harbor user's ability to repay and current economic conditions. Past due status is determined based on contractual terms.

(5) ***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.

(6) ***Harbor facilities and depreciation*** - Harbor facilities are stated at cost. Depreciation of harbor facilities is computed using the composite 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 operations.

Harbor facilities and their related composite straight-line rates used to compute depreciation are as follows:

	Rates
Land improvements	1.0% - 4.0%
Wharves	1.0% - 10.0%
Buildings	1.5% - 20.0%
Other improvements	2.0% - 20.0%
Equipment	8.0%

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(7) ***Bond issue costs*** - Costs relating to the issuance of bonds are amortized by the straight-line method over the term of the obligations.

(8) ***Unamortized debt discount*** - Debt discount is amortized ratably over the term of the related debt, and the unamortized balance is reflected as an offset against the long-term debt in the statements of net assets.

(9) ***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.

(10) ***Accrued vacation*** - Employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statements of net assets.

(11) ***Operating revenues*** - Operating revenues are those that result from providing goods and services. It also includes revenues not related to capital and related financing activities, noncapital financing activities, or investing activities, if any. Operating revenues are stated net of the increase for estimated doubtful accounts of $277,000 and $1,603,000 for the fiscal years ended June 30, 2003 and 2002, respectively.

(12) ***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.

NOTE C - CASH AND INVESTMENTS

At June 30, 2003 and 2002, 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. Cash deposits of the State are either federally

NOTE C - CASH AND INVESTMENTS (Continued)

insured or collateralized with obligations of the State or the United States. 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 Harbors Division to invest, with certain restrictions, in obligations of the State or the United States, 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 United States, 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.

NOTE D - CAPITAL ASSETS

The changes in capital assets were as follows:

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Nondepreciable assets				
Land and improvements	$ 238,509,867	$ 184,683	$ --	$ 238,694,550
Depreciable assets				
Land improvements	107,381,230	1,625,613	663,892	108,342,951
Wharves	189,532,262	966,991	--	190,499,253
Other improvements	74,152,446	483,625	--	74,636,071
Buildings	42,347,414	6,077,669	--	48,425,083
Equipment	11,036,479	62,753	223,502	10,875,730
Total at historical cost	662,959,698	9,401,334	887,394	671,473,638
Less accumulated depreciation for:				
Land improvements	20,016,169	3,787,544	--	23,803,713
Wharves	63,547,342	5,196,372	--	68,743,714
Other improvements	20,837,658	2,301,637	--	23,139,295
Buildings	18,916,761	1,313,163	--	20,229,924
Equipment	7,596,281	767,913	179,956	8,184,238
Total accumulated depreciation	130,914,211	13,366,629	179,956	144,100,884
Construction in progress	50,971,396	16,409,702	10,548,071	56,833,027
	$ 583,016,883	$ 12,444,407	$ 11,255,509	$ 584,205,781

NOTE D - CAPITAL ASSETS (Continued)

	Balance June 30, 2001	Additions	Deductions	Balance June 30, 2002
Nondepreciable assets				
Land and improvements	$ 231,909,867	$ 6,600,000	$ --	$ 238,509,867
Depreciable assets				
Land improvements	93,034,223	14,347,007	--	107,381,230
Wharves	177,801,640	11,730,622	--	189,532,262
Other improvements	73,570,434	582,012	--	74,152,446
Buildings	41,901,935	445,479	--	42,347,414
Equipment	10,985,604	133,215	82,340	11,036,479
Total at historical cost	629,203,703	33,838,335	82,340	662,959,698
Less accumulated depreciation for:				
Land improvements	17,849,094	2,167,075	--	20,016,169
Wharves	58,684,479	4,862,863	--	63,547,342
Other improvements	18,439,309	2,398,349	--	20,837,658
Buildings	17,518,314	1,398,447	--	18,916,761
Equipment	6,896,512	763,843	64,074	7,596,281
Total accumulated depreciation	119,387,708	11,590,577	64,074	130,914,211
Construction in progress	52,664,180	25,740,298	27,433,082	50,971,396
	$ 562,480,175	$ 47,988,056	$ 27,451,348	$ 583,016,883

Depreciation expense was $13,366,629 and $11,590,577 for the fiscal years ended June 30, 2003 and 2002, respectively.

NOTE E - LONG-TERM DEBT

The changes in long-term debt were as follows:

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Revenue bonds	$ 216,600,000	$ --	$ 7,415,000	$ 209,185,000
Special facility revenue bonds	16,500,000	--	--	16,500,000
General obligation bonds	606,019	--	456,247	149,772
	233,706,019	--	7,871,247	225,834,772
Less:				
Unamortized discount	(2,951,327)	--	(208,282)	(2,743,045)
Unamortized deferred loss on refunding	(3,999,430)	--	(313,602)	(3,685,828)
	$ 226,755,262	$ --	$ 7,349,363	$ 219,405,899

NOTE E - LONG-TERM DEBT (Continued)

	Balance June 30, 2001	Additions	Deductions	Balance June 30, 2002
Revenue bonds	222,375,000	$ 24,420,000	$ 30,195,000	$ 216,600,000
Special facility revenue bonds	16,500,000	--	--	16,500,000
General obligation bonds	1,076,286	2,218	472,485	606,019
	239,951,286	24,422,218	30,667,485	233,706,019
Less:				
Unamortized discount	(3,621,077)	128,502	(541,248)	(2,951,327)
Unamortized deferred loss on refunding	(3,083,773)	(1,185,463)	(269,806)	(3,999,430)
	233,246,436	$ 23,365,257	$ 29,856,431	$ 226,755,262

NOTE F - REVENUE BONDS PAYABLE

Pursuant to authorization from the State Legislature, the Director of DOT issued the 1990 Certificate and the 1997 Certificate, which provide for the issuance of bonds at any time and from time to time upon compliance with certain conditions of the respective Certificate.

The harbor revenue bonds (Bonds) are collateralized by a charge and lien on the gross revenues of the Public Undertaking 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 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.

The following is a summary of the Bonds as of June 30, 2003:

				Current		
Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Principal Due July 1, 2003	Installment Payments Due in Anticipation of Principal Payments on July 1, 2004	Noncurrent
1993	July 1, 2008	4.50 - 6.40%	$ 16,525,000	$ 1,190,000	$ 1,260,000	$ 5,760,000
1994	July 1, 2024	5.50 - 6.25%	54,010,000	2,215,000	2,345,000	45,765,000
1997	July 1, 2027	3.95 - 5.75%	56,290,000	445,000	470,000	53,400,000
2000	July 1, 2029	4.50 - 6.00%	79,405,000	1,935,000	2,035,000	68,285,000
2002	July 1, 2019	3.00 - 5.50%	24,420,000	1,860,000	1,920,000	20,300,000
			$ 230,650,000	7,645,000	8,030,000	193,510,000
	Less:					
	Unamortized discount			--	(203,224)	(2,539,821)
	Unamortized deferred loss on refunding			--	--	(3,685,828)
				$ 7,645,000	$ 7,826,776	$ 187,284,351

NOTE F - REVENUE BONDS PAYABLE (Continued)

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	$ 8,030,000	$ 11,548,259	$ 19,578,259
2005	8,470,000	11,126,264	19,596,264
2006	8,935,000	10,669,961	19,604,961
2007	9,435,000	10,181,683	19,616,683
2008	9,980,000	9,658,637	19,638,637
2009 - 2013	43,360,000	40,785,945	84,145,945
2014 - 2018	41,805,000	28,244,581	70,049,581
2019 - 2023	46,530,000	14,955,039	61,485,039
2024 - 2028	23,415,000	3,808,031	27,223,031
2029 - 2033	1,580,000	90,850	1,670,850
	$ 201,540,000	$ 141,069,250	$ 342,609,250

On April 1, 2002, the Harbors Division issued $7,760,000 in Bonds, Series A of 2002, and $16,660,000 in Bonds, Series B of 2002. Series A of 2002 Bonds will mature through the year 2008, at an average interest rate of 4.751932%, and Series B of 2002 Bonds will mature through the year 2019, at an average interest rate of 5.318863%. The 2002 Series, totaling $24,420,000, were issued at an average interest rate of 5.240263% to refund $23,495,000 of Bonds, 1992 Series (average interest rate of 6.448649%). Total net proceeds of $24,120,331 (after payment of $428,170 in underwriting fees, insurance, and other issuance costs), along with an additional $498,193 from the debt service reserve account, was deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Bonds, 1992 Series, on April 10, 2002.

Although the refunding resulted in the recognition of a deferred loss of $1,185,463, the Harbors Division in effect reduced its aggregate debt service payments by approximately $1,974,035 over the next 17 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $916,290.

NOTE G - HARBOR REVENUE BOND REQUIREMENTS

1990 CERTIFICATE

Minimum net revenue requirement. Pursuant to Section 6.03 of the 1990 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

NOTE G - HARBOR REVENUE BONDS REQUIREMENTS (Continued)

Undertaking that will yield net revenue, as defined by the 1990 Certificate, for the immediately ensuing 12 months, in an amount at least sufficient to:

(1) Pay when due all Bonds issued under the 1967 Certificate (all Bonds issued under the 1967 Certificate matured on July 1, 1997), interest thereon and reserves therefore;

(2) The amount computed in accordance with Section 6.03 of the 1990 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 1.35 times the total amount of: (a) the interest payments for such 12 months on all the Bonds outstanding under the 1990 Certificate, (b) the principal amount of the Bonds maturing by their terms during such 12 months and (c) 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 1990 Certificate totaled $7,126,875. Net revenues of the Public Undertaking amounted to $38,855,525 or 5.45 times the minimum net revenue requirement.

Harbor revenue special fund. This fund was created to provide for payments of principal and interest on the Bonds and for extraordinary renewals and replacements. Section 5.01 of the 1990 Certificate requires that the following accounts be established for the purpose of accounting for all monies in the harbor revenue special fund:

(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, 2003.

(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. This requirement was met as of June 30, 2003.

NOTE G - HARBOR REVENUE BOND REQUIREMENTS (Continued)

(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 (June 30, 2003).

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 of 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 1990 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 debt service reserve account allocable to a series of Bonds equals that portion of the reserve requirement allocable to such series;

NOTE G - HARBOR REVENUE BOND REQUIREMENTS (Continued)

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.

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) Pay when due all Bonds issued under the 1990 Certificate, interest thereon and reserves therefore;

(2) 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: (a) the interest payments for such 12 months on all the Bonds outstanding under the 1997 Certificate, (b) the principal amount of the Bonds maturing by their terms during such 12 months and (c) 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.

NOTE G - HARBOR REVENUE BOND REQUIREMENTS (Continued)

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 $19,651,608. Net revenues of the Public Undertaking amounted to $38,855,525 or 1.98 times the minimum net revenue requirement.

Harbor revenue special fund. This fund was created to provide for payments of principal and interest on the Bonds and for extraordinary renewals and replacements. Section 5.01 of the 1997 Certificate requires that the following accounts be established for the purpose of accounting for all monies in the harbor revenue special fund:

(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, 2003.

(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. This requirement was met as of June 30, 2003.

(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 (June 30, 2003).

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,

NOTE G - HARBOR REVENUE BOND REQUIREMENTS (Continued)

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 of 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 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.

NOTE H - SPECIAL FACILITY LEASE AND REVENUE BONDS

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

NOTE H - SPECIAL FACILITY LEASE AND REVENUE BONDS (Continued)

Pursuant to this authorization, $15,700,000 of 8-1/2% special facility revenue bond anticipation notes were issued in 1981 to finance the construction of container terminal facilities on Sand Island for the exclusive use of Matson Terminals, Inc. In 1983, special facility revenue bonds of $16,750,000 were issued to refund the notes and to provide additional funds for construction. On April 15, 1993, special facility revenue bonds of $16,500,000 were issued to refund the outstanding 1983 Series bonds.

These bonds, which bear interest at 5.75% per annum, mature on March 1, 2013, subject to optional redemption on or after March 1, 2003 at prices ranging from 102% to 100% of face value. Matson Navigation Company, Inc., parent company of the lessee, has provided a guaranty agreement as to payment of principal and interest on the bonds.

The special facility lease with Matson Terminals, Inc. is accounted for as a direct financing lease. The following lists the components of the net investment in direct financing lease as of June 30, 2003 and 2002:

	2003	2002
Total minimum lease payments receivable	$ 25,671,250	$ 26,620,000
Estimated unguaranteed residual value	3,600,000	3,600,000
Less unearned income	(10,503,076)	(11,580,055)
Net investment in direct financing lease	$ 18,768,174	$ 18,639,945

Minimum future rentals to be received as of June 30, 2003 under the direct financing lease are as follows:

Fiscal Year Ending June 30,	Amount
2004	948,750
2005	948,750
2006	948,750
2007	948,750
2008	948,750
2009 - 2013	20,927,500
	$ 25,671,250

On September 18, 2003, the bonds were redeemed in full at a price of 102% of the principal together with interest accrued to the redemption date.

NOTE I - GENERAL OBLIGATION BONDS PAYABLE

The Harbors Division is required to reimburse the State General Fund for principal and interest on the following state general obligation bonds authorized and issued to finance certain capital improvement projects of the Public Undertaking:

				Current		
Year of Issue	Last Installment Due Date	Interest Rates	Original Amount of Issue	Principal Due July 1, 2003	Installment Payments Due in Anticipation of Principal Payments on July 1, 2004	Noncurrent
1992	March 1, 2012	5.15 - 6.40%	$ 12,870	$ --	$ --	$ 5,004
1993	November 1, 2010	4.00 - 5.00%	160,901	--	10,728	75,078
1998	April 1, 2009	5.00 - 5.25%	64,631	--	8,301	48,443
2001	August 1, 2015	3.40 - 5.50%	737	--	--	737
2002	February 1, 2015	3.60 - 5.75%	1,481	--	--	1,481
			$ 240,620	$ --	$ 19,029	$ 130,743

Debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	$ 19,029	$ 5,788	$ 24,817
2005	19,462	5,065	24,527
2006	20,688	4,318	25,006
2007	21,306	3,500	24,806
2008	21,799	2,668	24,467
2009 - 2013	46,851	3,207	50,058
2014 - 2018	637	15	652
	$ 149,772	$ 24,561	$ 174,333

NOTE J - INTEREST COST

Total interest cost incurred for the fiscal years ended June 30, 2003 and 2002, amounted to $13,518,073 and $14,231,177, respectively. Of this amount, $2,556,836 and $2,857,242 were capitalized in the respective fiscal years as part of the construction cost of harbor facilities.

NOTE K - 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

NOTE K - LEASING OPERATIONS (Continued)

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 independent appraisals of the fair rental value of the leased property.

The following is a schedule of approximate future minimum lease rentals on noncancelable operating leases as of June 30, 2003:

Fiscal Year Ending June 30,	Amount
2004	$ 8,977,000
2005	9,020,000
2006	8,662,000
2007	8,105,000
2008	7,845,000
Thereafter	253,356,000
	$ 295,965,000

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.

The Harbors Division estimates that approximately 10% of the land area (excluding submerged lands) and floor space of the harbor facilities is leased or held for lease. Information regarding the cost and related accumulated depreciation of these facilities, which is required by Statement of Financial Accounting Standards No. 13, *Accounting for Leases,* to be disclosed, is not provided because the accumulation of such data was not considered practical and because the information, when compared to the future minimum lease rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.

NOTE L - RETIREMENT BENEFITS

Employees' retirement system. Substantially all eligible employees of 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. 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.

NOTE L - RETIREMENT BENEFITS (Continued)

Members of the ERS belong to either a contributory or noncontributory 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 the Harbors Division is required to contribute to both options at an actuarially determined rate. Contributions by the Harbors Division for the fiscal years ended June 30, 2003, 2002 and 2001 were approximately $738,000, nil and $155,000, respectively. The contribution rate for the fiscal year ended June 30, 2003 was 8.87%. The contribution rate was 5.78% from July 1, 2000 to November 15, 2000, and nil for the remainder of the fiscal year ended June 30, 2001 and for the fiscal year ended June 30, 2002.

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 years ended June 30, 2003 and 2002, was approximately $599,000 and $452,000, respectively.

NOTE M - COMMITMENTS

Construction contracts. The Harbors Division is committed under contracts awarded and orders placed for construction, expenses, supplies, etc. These commitments amounted to approximately $21,197,000 at June 30, 2003.

Accumulated sick leave pay. Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a public employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2003, approximated $4,994,000.

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 State's or Harbors Division's financial statements.

NOTE N - RISK MANAGEMENT

The Harbors Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $250,000 per occurrence of property losses and the first $3 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $25 million ($10 million for earthquake, named hurricane, and flood) and the annual aggregate for general liability losses per occurrence is $7 million. The State also has an insurance policy to cover medical malpractice risk in the amount of $30 million per occurrence with no annual aggregate limit.

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

NOTE O - CEDED LANDS

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

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

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

NOTE O - CEDED LANDS (Continued)

In 1990, in response to *Yamasaki*, the State Legislature adopted Act 304, Session Laws of Hawaii 1990, which (1) defined "public land trust" and "revenue," (2) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (3) established a process for OHA and the Director of Finance to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

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

On January 14, 1994, OHA and its Board of Trustees (the Plaintiffs) filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (First Circuit)), claiming that the amount paid to OHA was inadequate and alleging that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived form 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 Plaintiff's 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) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (2) the State-owned and operated Hilo Hospital, (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 Plaintiff's four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiff's 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 Plaintiff's four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

NOTE O - CEDED LANDS (Continued)

On September 12, 2001, the Hawaii Supreme Court concluded that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. The Hawaii Supreme Court dismissed the case for lack of justiciability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA the receipts from the ceded lands.

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 receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. During the 2003 legislative session, the State Legislature appropriated moneys from the various funds into which the ceded lands receipts had been deposited after the decision by the Hawaii Supreme Court in 2001 was issued and agencies ceased making payments to OHA, and directed the 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. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii et al.,* Civil No. 03-1-1505-07. The Plaintiffs 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. The Plaintiffs claim that, accordingly the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in its lawsuit filed in 1994, and (2) amounts payable under Act 304 that have not been paid. Plaintiffs also seek declaratory and injunctive relief ordering the State to reinstate Act 304 (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.

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 for such claims, if any. Accordingly, no estimate of loss has been recorded in the accompanying financial

NOTE O - CEDED LANDS (Continued)

statements of the Harbors Division. The State Attorney General is of the view that the claims asserted by OHA in the above suit are meritless. Resolution of all of OHA's claims could have a material adverse effect on the Harbors Division's financial condition.

In a third 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 that may be alienated.

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

Amounts paid and payable to OHA are treated as operating expenses of DOT's commercial harbors system. During the fiscal year ended June 30, 2003, payment to OHA was made by the State on behalf of various state departments, including the Harbors Division. The State's payment of $11,681,500 for the Harbors Division for the fiscal years ended June 30, 2003 and 2002, is included as an operating expense in the statements of revenues, expenses and changes in net assets. As a result of the Hawaii Supreme Court's ruling on Act 304 on September 12, 2001, no payment was made by the Harbors Division during the fiscal year ended June 30, 2002.

NOTE P - 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 $1,905,797 and $2,341,865 for the fiscal years ended June 30, 2003 and 2002, respectively.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to $962,692 and $1,011,208 for the fiscal years ended June 30, 2003 and 2002, respectively.

The Harbors Division incurred costs of $1,308,058 and $1,605,257 for fireboat operation services provided by the City and County of Honolulu during the fiscal years ended June 30, 2003 and 2002, respectively.

NOTE P - TRANSACTIONS WITH OTHER GOVERNMENT AGENCIES (Continued)

The Small Boat Harbors Boating Program (Program) was transferred from DOT to the Department of Land and Natural Resources (DLNR) in fiscal year 1992. Services performed by the Harbors Division for the Program are fully reimbursed by the Program. Services rendered to the Program during the fiscal years ended June 30, 2003 and 2002, amounted to $101,238 and $84,660, respectively.

NOTE Q - 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 transferring to ATDC 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.

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 of 1998. Although the Marketplace construction was substantially completed, several items on a Harbors Division construction punchlist have yet to be completed.

The losses in revenues for the fiscal years ended June 30, 2003 and 2002, amounted to $1,726,011 and $1,696,724, respectively, and have been included in rental revenues in the respective fiscal year. As of June 30, 2003 and 2002, amounts due to the Harbors Division were $6,287,367 and $4,561,357, respectively.

NOTE R - 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.

NOTE R - TRANSFER OF LAND TO OTHER STATE AGENCIES (Continued)

As part of HCDA's development of the District, two structures from which the Harbors Division received revenue were demolished and the land improved. The Harbors Division expects to enter into negotiations with HCDA regarding the revenues lost due to the demolition of those structures, and potential revenue losses as the development of the District progresses. Besides revenue losses, the Harbors Division expects to enter negotiations regarding leases, security, maintenance and repair of facilities, and capital improvement projects. The Harbors Division continues to operate the harbor facilities at Kewalo Basin and Fort Armstrong pending completion of the negotiations. Additionally, the Harbors Division expects to continue operating Kewalo Basin based on its discussions with HCDA.

NOTE S - KAPALAMA LAND DEVELOPMENT

In 1993, the State issued a request for proposals (RFP) to have a private developer develop a portion of the former Kapalama Military Reservation. Negotiations were conducted with a developer, but were terminated and the State plans to issue another RFP. The future development of the area is under study, and therefore, the effect on the Harbors Division is uncertain.

NOTE T - ARBITRAGE

The Harbors Division is required to annually calculate rebates due to the U.S. Treasury on the harbor revenue bonds issued from 1986. In accordance with the requirements of Section 148 of the 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 earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2003, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

NOTE U - CONTINGENCIES

Environmental issues. The Harbors Division is subject to laws and regulations relating to the protection of the environment. Migration of contamination from the Nimitz Highway area to the Harbors Division's property in the Honolulu Harbor area from Piers 19 to 38 was discovered during the fiscal year ended June 30, 1996. The Department of Health conducted several studies of the contaminated area from 1997 to 1999. Results of the studies were inconclusive. The Harbors Division has not been identified as a potentially responsible party.

NOTE U - CONTINGENCIES (Continued)

However, the Harbors Division entered into an agreement with the Department of Health and other third parties to share in the responsibility for remediation of the contaminated property with all parties to the agreement. The Harbors Division is unable to estimate the potential cost of remediation. Accordingly, no estimate of loss has been recorded in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

Schedule 1

State of Hawaii
Department of Transportation
Harbors Division
CASH AND CASH EQUIVALENTS AND INVESTMENTS IN TIME CERTIFICATES OF DEPOSIT AND REPURCHASE AGREEMENTS OF THE PUBLIC UNDERTAKING
June 30, 2003

Unrestricted cash and cash equivalents	$	90,878,197
Restricted cash and cash equivalents		
For construction		31,838,432
For matured revenue bonds and interest coupons payable		311,100
For general obligation bond debt service payments		254,215
For revenue bond debt service payments		13,854,618
For insurance deductibles		897,765
For security deposits		2,500,658
For payment to the Department of Budget and Finance		9,999,893
		59,656,681
Total	$	150,534,878
With Director of Finance, State of Hawaii	$	150,208,278
With fiscal agents		311,100
On hand		15,500
Total	$	150,534,878

State of Hawaii
Department of Transportation
Harbors Division

CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING

Fiscal Year Ended June 30, 2003

Schedule 2

Project	Balance, June 30, 2002	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance, June 30, 2003
Statewide:						
Statewide passenger terminal facility	$ 547,931	$ --	$ --	$ --	$ 547,931	$ --
Statewide surveying	38,651	--	--	--	38,651	--
Statewide removal of architectural barriers	510,330	117,585	--	17,886	179,888	465,913
Statewide harbors environmental services	--	62,332	--	--	62,332	--
Honolulu Harbor:						
Lead paint and asbestos study	188,527	--	--	8,397	--	196,924
Sand Island tunnel feasibility study	978,099	--	--	11,148	--	989,247
Piers 24-29 shed demolition and site improvement	1,658,769	350	548	80,539	--	1,740,206
Fuel Pier construction and utility	24,537	--	--	1,088	25,625	--
Sand Island container yard reconstruction	1,940,943	82	--	97,580	--	2,038,605
Harbor planning	231,147	--	--	11,080	--	242,227
Domestic commercial fishing village	12,437,503	4,834	--	581,582	4,814,634	8,209,285
Petroleum, oil and lubricant remediation study	523,468	187,542	--	29,658	--	740,668
Piers 36-38 environmental remediation	--	32,570	--	163	--	32,733
Demolition of storage tanks	97,416	1,197	--	4,745	--	103,358
Pier 19 ferry and cruise passenger terminal	1,736,564	3,515,132	--	69,222	--	5,320,918
Pier 2 cruise ship terminal	691,087	1,277	--	36,364	--	728,728
Keehi Industrial Park development plan	--	9,024	--	--	9,024	--
Keehi Industrial Park drainage improvements	--	7,184	--	199	--	7,383
Risk assessment for Pier 29	--	22,495	--	623	--	23,118
Sand Island container yard light pole improvements	166,071	2,552	--	--	168,623	--
Piers 16-17 electrical panel replacement	6,130	--	--	--	6,130	--
Pier 39 sprinkler and landscaping installation	1,685	--	--	--	1,685	--
Replace air conditioning at Oahu District Office	--	3,108	--	--	3,108	--
Pier 51 water line replacement	152,094	--	--	--	152,094	--
Risk assessment for Piers 36-38	124,218	248,656	--	13,259	--	386,133
Pier 11 vehicle barriers	--	13,723	--	374	--	14,097
Piers 1-2 substructure barrier	--	17,524	--	476	--	18,000
Aloha Tower lighting improvements	54,183	38,396	--	--	92,579	--
Navigational improvements	587,316	--	--	--	587,316	--
Sand Island stevedore driveway access and parking	166,167	42,223	--	843	209,233	--
Bullrail installation	25,749	382,248	--	11,969	--	419,966
Concrete column base Improvements at Pier 10	111,227	--	--	--	111,227	--
Balance forward	$ 22,999,812	$ 4,710,034	$ 548	$ 977,195	$ 7,010,080	$ 21,677,509

State of Hawaii
Department of Transportation
Harbors Division
CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING
Fiscal Year Ended June 30, 2003

Schedule 2 (Continued)

Project	Balance, June 30, 2002	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance, June 30, 2003
Balance carried forward	$ 22,999,812	$ 4,710,034	$ 548	$ 977,195	$ 7,010,080	$ 21,677,509
Honolulu Harbor:						
Bulkhead improvements at Piers 25-28	20,101	233,147	--	9	--	253,257
Pier 32 shed wall improvement	57,660	30,903	--	--	88,563	--
Environmental investigation near Pier 32	4,342	1,991	--	289	--	6,622
Concrete improvements at Pier 11 ramp	38,528	152,952	--	--	191,480	--
Dredge Ewa end of Pier 51A	135,015	16,399	--	7,708	--	159,122
Video monitoring system	69,119	4,520	--	3,851	--	77,490
Security surveillance system	--	38,235	--	1,054	--	39,289
Relamp floodlights at Piers 51-53	114	84,692	--	--	--	84,806
Pile improvements at Pier 2	--	142,922	--	--	142,922	--
Pile improvements at Pier 40	370	612	--	3	--	985
Reroof Pier 40 office building	103	34,730	--	--	--	34,833
Site survey and installation of controls	--	969	--	--	--	969
Replace lift station at Pier 27	--	347	--	6	--	353
Pavement improvements at Fort Armstrong	--	2,062	--	--	--	2,062
Kewalo Basin:						
Catwalk replacement	--	1,379	--	--	1,379	--
Electrical improvements	103,533	395	--	--	--	103,928
Demolition of former GRG Enterprise	78,480	5,894	--	4,372	--	88,746
Electrical pedestal improvements at Piers A and B	195	305,783	--	--	305,978	--
Barbers Point Harbor:						
Deep Draft Harbor improvements	18,621,635	629,625	--	993,945	11,882	20,233,323
Replace bullrails at Piers 1, 5 & 6	92,387	--	--	--	90,137	2,250
Kahului Harbor:						
Kaumalapau Harbor survey	978	--	--	--	978	--
Pier 1A cruise terminal development plan	--	5,932	--	--	5,932	--
Cargo yard expansion	297,848	--	--	12,387	--	310,235
Drainage master plan	107,806	--	--	5,658	--	113,464
Environmental assessment master plan	--	51,600	--	1,385	--	52,985
Balance forward	$ 42,628,026	$ 6,455,123	$ 548	$ 2,007,862	$ 7,849,331	$ 43,242,228

State of Hawaii
Department of Transportation
Harbors Division
CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING
Fiscal Year Ended June 30, 2003

Schedule 2 (Continued)

Project	Balance, June 30, 2002	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance, June 30, 2003
Balance carried forward	$ 42,628,026	$ 6,455,123	$ 548	$ 2,007,862	$ 7,849,331	$ 43,242,228
Kahului Harbor:						
Pier 2 fender system	--	861	--	--	--	861
Pier 2 substructure improvements	--	321,085	--	--	252,321	68,764
Pier 1 improvements	5,283,700	15,578	4,787,372	411,605	--	10,498,255
Pier 3 container yard reconstruction	255,183	428,315	--	24,882	--	708,380
Piers 2 and 3 yard pavement	120	--	--	--	120	--
Wharf Street shed renovation	2,879	--	--	--	2,879	--
Navigational study	54,060	--	--	2,770	--	56,830
Puunene yard pavement	99,466	--	--	--	99,466	--
Siding replacement at Pier 1A shed	2,074	181,881	--	--	183,955	--
Upgrade perimeter fencing	--	7,536	--	188	--	7,724
						--
Kaunakakai Harbor:						--
Bullrail installation	10,373	109,661	--	3,268	123,302	--
Substructure improvements	--	6,537	--	37	--	6,574
Hilo Harbor:						
Hilo Harbor improvements	360,755	376,930	--	24,514	184,683	577,516
Pave former molasses tanks area near Pier 3	1,295,267	9,229	--	34,094	1,338,590	--
Pier 1 fender system improvements	145,713	--	--	--	--	145,713
Pier 1 shed waterline improvements	--	185	--	--	--	185
Piers 1-2 roll up door improvements	1,391	105,428	--	15	106,834	--
Pier 3 breasting dolphins and catwalks	263,151	36,666	--	15,199	--	315,016
Pier 3 pile improvements	--	100,312	--	--	--	100,312
Bullrail installation	12,681	67,749	--	2,511	--	82,941
Replacement of timber fender system at Pier 1	31	8,219	--	--	8,250	--
Upgrade perimeter fencing	--	13,757	--	369	--	14,126
Kawaihae Harbor:						
Pave barge terminal area	--	7,853	--	--	7,853	--
Fender system improvements	124,966	115,386	--	--	240,352	--
Pile improvements	--	86,337	--	--	--	86,337
Balance forward	$ 50,539,836	$ 8,454,628	$ 4,787,920	$ 2,527,314	$ 10,397,936	$ 55,911,762

Schedule 2
(Continued)

State of Hawaii
Department of Transportation
Harbors Division
CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING
Fiscal Year Ended June 30, 2003

		Additions by Source of Funds				
Project	Balance, June 30, 2002	Harbor Special Fund	Harbor Revenue Bonds	Capitalized Interest	Transfer Out	Balance, June 30, 2003
Balance carried forward	$ 50,539,836	$ 8,454,628	$ 4,787,920	$ 2,527,314	$ 10,397,936	$ 55,911,762
Nawiliwili Harbor:						
Pier 3 improvements	36,775	--	--	--	34,368	2,407
Pier 2 shed siding improvements	3,915	111,852	--	--	115,767	--
Environmental risk assessment	34,542	1,435	--	1,811	--	37,788
Pier 2 extension	344,350	2,146	--	18,549	--	365,045
Bullrail installation	11,649	300,741	--	8,920	--	321,310
Pier 3 shed roof improvements	48	22,851	--	--	--	22,899
Relamp floodlights	--	145,142	--	30	--	145,172
Upgrade perimeter fencing	--	7,922	--	212	--	8,134
Port Allen:						
Replace siding	281	18,229	--	--	--	18,510
	$ 50,971,396	$ 9,064,946	$ 4,787,920	$ 2,556,836	$ 10,548,071	$ 56,833,027

Schedule 3

State of Hawaii
Department of Transportation
Harbors Division
GENERAL OBLIGATION BONDS OF THE PUBLIC UNDERTAKING
June 30, 2003

State of Hawaii General Obligation Bonds	Date of Bonds	Last Installment Due Date	Interest Rates	Original Amount of Issue	Amount Repaid	Balance, June 30, 2003		
						Current	Noncurrent	Total
Series BW	March 1, 1992	March 1, 2012	5.15 - 6.40%	$ 12,870	$ 5,721	$ --	$ 5,004	$ 5,004
Series CI	November 1, 1993	November 1, 2010	4.00 - 5.00%	160,901	75,096	10,728	75,078	85,806
Series CS	April 1, 1998	April 1, 2009	5.00 - 5.25%	64,631	7,866	8,301	48,443	56,744
Series CW	August 1, 2001	August 1, 2015	3.40 - 5.50%	737	--	--	737	737
Series CY	February 1, 2002	February 1, 2015	3.60 - 5.75%	1,481	--	--	1,481	1,481
				$ 240,620	$ 88,683	$ 19,029	$ 130,743	$ 149,772

State of Hawaii
Department of Transportation
Harbors Division
REVENUE BONDS OF THE PUBLIC UNDERTAKING
June 30, 2003

	Final Redemption Date	Interest Rates	Original Amount of Issue	Balance, June 30, 2003 Current	Noncurrent	Total
Refunding issue of 1993	July 1, 2008	4.50 - 6.40%	$ 16,525,000	$ 2,450,000	$ 5,760,000	$ 8,210,000
Issue of 1994	July 1, 2024	5.50 - 6.25%	54,010,000	4,560,000	45,765,000	50,325,000
Issue of 1997	July 1, 2027	3.95 - 5.75%	56,290,000	915,000	53,400,000	54,315,000
Issue of 2000	July 1, 2029	4.50 - 6.00%	79,405,000	3,970,000	68,285,000	72,255,000
Issue of 2002	July 1, 2019	3.00 - 5.50%	24,420,000	3,780,000	20,300,000	24,080,000
			$ 230,650,000	$ 15,675,000	$ 193,510,000	$ 209,185,000

Schedule 5

State of Hawaii
Department of Transportation
Harbors Division
OPERATING REVENUES OF THE PUBLIC UNDERTAKING
Fiscal Year Ended June 30, 2003

	Amount
Services:	
Wharfage	$ 33,840,907
Passenger Debark/Embark	3,914,173
Dockage	4,339,423
Demurrage	1,029,037
Port entry	955,139
Mooring charges	1,059,024
Cleaning wharves	122,339
Other	37,554
Total services	45,297,596
Rentals:	
Wharf space and land	18,456,377
Storage	2,642,392
Auto parking	1,197,126
Pipelines	1,899,253
Total rentals	24,195,148
Others:	
Sale of utilities	536,694
Miscellaneous	73,780
Total others	610,474
	$ 70,103,218

Schedule 6

State of Hawaii
Department of Transportation
Harbors Division
SELECTED OPERATING EXPENSES BY DISTRICT OF THE PUBLIC UNDERTAKING
Fiscal Year Ended June 30, 2003

	District					
	Oahu	Hawaii	Maui	Kauai	Administration	Total
Personal services	$ 5,329,732	$ 663,672	$ 630,663	$ 705,342	$ 3,300,736	$ 10,630,145
Harbor operations	1,605,185	327,503	269,905	193,491	11,688,026	14,084,110
Maintenance	3,794,281	936,608	842,537	516,737	260,066	6,350,229
General administration	151,599	28,998	23,807	34,873	1,639,001	1,878,278
	$ 10,880,797	$ 1,956,781	$ 1,766,912	$ 1,450,443	$ 16,887,829	$ 32,942,762

Schedule 7

State of Hawaii
Department of Transportation
Harbors Division
HARBOR REVENUE BONDS 1990 CERTIFICATE - MINIMUM NET REVENUE REQUIREMENT OF THE PUBLIC UNDERTAKING
Fiscal Year Ended June 30, 2003

Net revenues, as defined by the 1990 Certificate:		
Income from operations before depreciation		$ 32,983,909
Add:		
Interest income, exclusive of investment in direct financing lease	$ 3,965,819	
State of Hawaii, surcharge for central service expenses	1,905,797	
Cash available in the harbor reserve and contingency account	--	5,871,616
		$ 38,855,525
Harbor revenue bond debt service requirements under the 1990 Certificate, including minimum sinking fund payments during the current fiscal year		$ 7,126,875
Ratio of net revenues to harbor revenue bond debt service requirements		5.45

Schedule 8

State of Hawaii
Department of Transportation
Harbors Division
HARBOR REVENUE BONDS 1997 CERTIFICATE - MINIMUM NET REVENUE REQUIREMENT OF THE PUBLIC UNDERTAKING
Fiscal Year Ended June 30, 2003

Net revenues, as defined by the 1997 Certificate:		
Income from operations before depreciation		$ 32,983,909
Add:		
Interest income, exclusive of investment in direct financing lease	$ 3,965,819	
State of Hawaii, surcharge for central service expenses	1,905,797	
Cash available in the harbor reserve and contingency account	--	5,871,616
		$ 38,855,525
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments during the current fiscal year		$ 19,651,608
Ratio of net revenues to harbor revenue bond debt service requirements		1.98