

**STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION  
HARBORS DIVISION**

**Financial Statements and Schedules of the Public Undertaking  
Fiscal Years Ended June 30, 2002 and 2001  
(With Independent Auditors' Report Thereon)**



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**NISHIHAMA & KISHIDA, C.P.A.'S, INC.**

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**STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION  
HARBORS DIVISION**

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**STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION  
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, 2002 and 2001, 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, 2002, 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, 2002 and 2001, 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 P 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 November 25, 2002, 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, 2002, 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, 2002, 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, 2002.

*Nishihama & Kishida, CPAs, Inc.*

Honolulu, Hawaii  
November 25, 2002

## **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, 2002. Please read it in conjunction with the Harbors Division's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The Harbors Division's net assets increased by \$27 million or six percent.
- During the fiscal year, revenues decreased by \$1 million or two percent while expenses decreased by \$5 million or nine percent.
- Federal funded capital contributions of approximately \$1 million were earned.
- Approximately \$23 million in revenue bonds were refinanced, reducing debt service payments by \$2 million over the next seven years.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements consist of three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### **REQUIRED FINANCIAL STATEMENTS**

The financial statements of the Harbors Division report information about the Harbors Division using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The statement of net assets includes all of the Harbors Division's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities).

All of the current fiscal year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of the Harbors Division's operations over the past fiscal year and can be used to determine whether the Harbors Division has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

The final required financial statement is the statement of cash flows which provides information about the Harbors Division's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## FINANCIAL ANALYSIS OF THE PUBLIC UNDERTAKING

**Table 1**  
**Condensed Statements of Net Assets**  
**(in thousands of dollars)**

	<u>2001</u>	<u>2002</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 177,625	\$ 174,503	\$ (3,122)	(2) %
Capital assets	<u>562,480</u>	<u>583,017</u>	<u>20,537</u>	4 %
Total assets	<u>740,105</u>	<u>757,520</u>	<u>17,415</u>	2 %
Long-term debt outstanding	218,884	211,447	(7,437)	(3) %
Other liabilities	<u>42,812</u>	<u>40,919</u>	<u>(1,893)</u>	(4) %
Total liabilities	<u>261,696</u>	<u>252,366</u>	<u>(9,330)</u>	(4) %
Net assets				
Invested in capital assets, net of related debt	329,234	356,261	27,027	8 %
Unrestricted	<u>149,175</u>	<u>148,893</u>	<u>(282)</u>	0 %
Total net assets	<u>\$ 478,409</u>	<u>\$ 505,154</u>	<u>\$ 26,745</u>	6 %

The Harbors Division's net assets increased six percent from \$478 million to \$505 million. Most of the increase in net assets was a result of current fiscal year operational net earnings. Net assets were used to finance capital projects.

**Table 2**  
**Condensed Statements of Revenues,**  
**Expenses and Changes in Net Assets**  
**(in thousands of dollars)**

	<u>2001</u>	<u>2002</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues	\$ 63,528	\$ 66,166	\$ 2,638	4 %
Nonoperating revenues	<u>9,961</u>	<u>5,964</u>	<u>(3,997)</u>	(40) %
Total revenues	<u>73,489</u>	<u>72,130</u>	<u>(1,359)</u>	(2) %
Depreciation	11,295	11,591	296	3 %
Other operating expenses	26,728	23,333	(3,395)	(13) %
Nonoperating expenses	<u>12,751</u>	<u>11,392</u>	<u>(1,359)</u>	(11) %
Total expenses	<u>50,774</u>	<u>46,316</u>	<u>(4,458)</u>	(9) %
Income before capital contributions	22,715	25,814	3,099	14 %
Capital contributions	<u>—</u>	<u>932</u>	<u>932</u>	100 %
Increase in net assets	\$ <u>22,715</u>	\$ <u>26,746</u>	\$ <u>4,031</u>	18 %

Total revenues decreased by two percent to \$72 million. The decrease is primarily due to less interest earnings due to declining investment interest rates. The decreased revenues were offset by increased revenue of approximately \$1 million primarily from foreign cruise ship passenger fees. Over half of operating revenues are from services and approximately one-third comes from rentals.

Total expenses decreased by nine percent or approximately \$5 million. Cost savings were realized because the Harbors Division ceased to expend approximately \$5 million per fiscal year in ceded land assessments effective as of the first quarter in the current fiscal year as a result of a Hawaii Supreme Court ruling.

## **BUDGETARY ANALYSIS**

As required by Section 37-68, Hawaii Revised Statutes, the Harbors Division prepares a budget that becomes its legally adopted budget when the State Legislature approves the executive budget 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)**

	<u>Budget</u>	<u>Actual</u>	<u>Under (over) Budget</u>	<u>Percent Change</u>
Personal services	\$ 10,683	\$ 9,612	\$ 1,071	10 %
Other operating expenditures	48,158	40,593	7,565	16 %
Total operating expenditures	58,841	50,205	8,636	15 %
Capital outlay	116,524	1,541	114,983	99 %
Total	\$ 175,365	\$ 51,746	\$ 123,619	70 %

During the fiscal year ended June 30, 2002, approximately \$1.3 million was additionally appropriated to improve security measures in the statewide harbors system.

The variance between actual capital outlay and the related budget amount results from timing differences between the amount of costs incurred during the fiscal year and the amount budgeted for the entire cost of capital projects.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

**Table 4**  
**Capital Assets**  
**(in thousands of dollars)**

	<u>2001</u>	<u>2002</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land and land improvements	\$ 324,877	\$ 345,824	\$ 20,947	6 %
Wharves	177,802	189,532	11,730	7 %
Other improvements	73,637	74,219	582	1 %
Buildings and improvements	41,902	42,347	445	1 %
Equipment	10,986	11,037	51	0 %
Subtotal	629,204	662,959	33,755	5 %
Less: Accumulated depreciation	(119,388)	(130,914)	(11,526)	10 %
Subtotal	509,816	532,045	22,229	4 %
Construction in progress	52,664	50,972	(1,692)	(3) %
Total	\$ 562,480	\$ 583,017	\$ 20,537	4 %

As of June 30, 2002, the Harbors Division had \$583 million invested in capital assets as shown in Table 3. There was a net increase (additions, deductions, and depreciation) of \$21 million or four percent from the end of the prior fiscal year.

Major capital asset additions to the Honolulu Harbor during the fiscal year ended June 30, 2002, included the following:

- \$7 million to extend Pier 5, including water and electrical services;
- \$6.6 million for 4 acres of land near Pier 40 for the expansion of inter-island barge cargo operations;
- \$5 million in improvements for the domestic fishing village at Piers 36 to 38;
- \$4.5 million for a container yard and storage facility for barge and ship cargo storage operations;
- \$3 million to replace deteriorated catwalk facility for passenger cruise boat tour operations; and
- \$2 million to demolish sugar storage facilities for future development of harbor facilities.

The Harbors Division is committed under contracts awarded for construction totaling approximately \$17 million.

### Bond Ratings

There was no change in credit ratings for harbor revenue bonds during the fiscal year ended June 30, 2002, 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 & 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 & 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. Rating provided by these rating companies are not "market ratings", as the ratings are not a recommendation to buy, hold, or sell any security.

### **Bond Refunding**

To improve cash flow and to take advantage of lower interest rates, the Harbors Division refinanced nearly \$23 million by issuing refunding bonds in April 2002. By refinancing the debt, the Harbors Division reduced its debt service payments by \$2 million over the next seven years.

### **Bond Covenants**

Bond covenants allow the issuance of additional debt, on a 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 1.25 or 1.35 times the debt service requirements under the 1990 and 1997 Harbor Revenue Bond Certificates, respectively. The Harbors Division currently enjoys a coverage ratio of 5.01 under the 1990 Harbor Revenue Bond Certificate and 2.48 under the 1997 Harbor Revenue Bond Certificate as compared to the prior fiscal year's ratio of 4.71 and 2.41, respectively.

### **GENERAL ECONOMIC INFORMATION**

The Harbors Division's revenue stream is affected by the general economy of the State of Hawaii (Hawaii). Economic data show that Hawaii is continuing to recover from the effects of the terrorist attacks against the United States of America in September 2001. Based on year-over-year growth rates for the fourth fiscal quarter (April through June) of 2002, Hawaii improved in terms of planned and completed construction compared to the fourth fiscal quarter of 2001. However, the fourth fiscal quarter 2002 growth rates for general fund tax revenues, visitor arrivals, and labor force were down from their fourth fiscal quarter 2001 levels.

Below is a summary of the year-over-year growth rates for the fourth fiscal quarter of 2002 compared to 2001:

- The contracting tax base for construction increased by 11.6% while total private authorizations increased by 3.2%.
- Revenues from the general excise and use tax decreased by 1.8% while the transient accommodation tax revenues decreased by 11.8%.
- The average daily visitor census numbers decreased by 3.5%.
- Hawaii's labor force decreased by 1.7% but the unemployment rate decreased by .2%.
- The number of wage and salary jobs decreased by .9%, which is an improvement over the 1.2% decline for the previous quarter.
- Individual income tax revenues decreased by 10.3%.

#### **REQUEST FOR INFORMATION**

This 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 request 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 *warren.sugimoto@hawaii.gov*.

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**STATEMENTS OF NET ASSETS OF THE PUBLIC UNDERTAKING**  
**June 30, 2002 and 2001**

	2002	2001
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Notes B and C)	\$ 82,403,250	\$ 72,592,326
Receivables		
Accounts receivable, less allowance for doubtful accounts of \$7,635,000 in 2002 and \$6,032,000 in 2001	6,445,895	4,797,330
Interest	1,616,876	1,874,619
Grant	2,123,343	1,191,640
Materials and supplies, at cost	41,746	46,966
Prepaid insurance and others	23,800	132,918
Total current assets	92,654,910	80,635,799
<b>RESTRICTED ASSETS</b>		
Current		
Cash and cash equivalents (Notes B and C)	60,719,026	76,025,007
Total current restricted assets	60,719,026	76,025,007
Net investment in direct financing lease (Note H)	18,639,945	18,512,592
Total restricted assets	\$ 79,358,971	\$ 94,537,599

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**STATEMENTS OF NET ASSETS OF THE PUBLIC UNDERTAKING (Continued)**  
**June 30, 2002 and 2001**

	<b>2002</b>	<b>2001</b>
<b>ASSETS</b>		
<b>HARBOR FACILITIES</b>		
Non-depreciable facilities		
Land	\$ 164,404,485	\$ 157,804,485
Land improvements	74,038,474	74,038,474
Other improvements	66,908	66,908
	<u>238,509,867</u>	<u>231,909,867</u>
Depreciable facilities		
Land improvements	107,381,230	93,034,223
Wharves	189,532,262	177,801,640
Other improvements	74,152,446	73,570,434
Buildings	42,347,414	41,901,935
Equipment	11,036,479	10,985,604
	<u>424,449,831</u>	<u>397,293,836</u>
Less accumulated depreciation	130,914,211	119,387,708
	<u>293,535,620</u>	<u>277,906,128</u>
Construction in progress	50,971,396	52,664,180
	<u>583,016,883</u>	<u>562,480,175</u>
<b>OTHER ASSET</b>		
Unamortized bond issue costs	2,489,441	2,451,668
	<u>2,489,441</u>	<u>2,451,668</u>
	<u>\$ 757,520,205</u>	<u>\$ 740,105,241</u>

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**STATEMENTS OF NET ASSETS OF THE PUBLIC UNDERTAKING (Continued)**  
**June 30, 2002 and 2001**

	<b>2002</b>	<b>2001</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES (payable from current assets)</b>		
Accounts payable	\$ 997,481	\$ 1,356,826
Contracts payable, including retainages	761,252	537,226
Accrued vacation	1,711,623	1,459,385
Payable to harbor user	--	1,024,613
Due to Department of Budget and Finance	1,741,993	1,231,839
Total current liabilities (payable from current assets)	5,212,349	5,609,889
<b>CURRENT LIABILITIES (payable from restricted assets)</b>		
Contracts payable, including retainages	1,749,974	3,540,331
Matured revenue bonds and interest payable	346,800	529,600
Revenue bonds payable, current maturities, less unamortized discount of \$208,283 in 2002 and \$261,989 in 2001 (Note F)	14,851,717	13,513,011
General obligation bonds payable, current maturities (Note I)	456,247	849,434
Accrued interest payable	5,827,888	6,520,587
Security deposits	2,473,661	2,249,640
Due to Department of Budget and Finance	9,999,893	9,999,893
Total current liabilities (payable from restricted assets)	35,706,180	37,202,496
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES</b>		
Revenue bonds payable, less unamortized discount of \$2,743,044 in 2002 and \$3,359,088 in 2001, and unamortized deferred loss on refunding of \$3,999,430 in 2002 and \$3,083,773 in 2001 (Note F)	194,797,526	202,157,139
Special facility revenue bonds payable (Note H)	16,500,000	16,500,000
General obligation bonds payable (Note I)	149,772	226,852
Total long-term debt	211,447,298	218,883,991
Total liabilities	252,365,827	261,696,376
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	356,261,620	329,233,740
Unrestricted net assets	148,892,758	149,175,125
Total net assets	505,154,378	478,408,865
	\$ 757,520,205	\$ 740,105,241

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, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>OPERATING REVENUES</b>		
Services	\$ 43,049,386	\$ 42,132,173
Rentals	21,994,528	20,070,065
Others	1,122,167	1,325,907
	<u>66,166,081</u>	<u>63,528,145</u>
<b>OPERATING EXPENSES BEFORE DEPRECIATION</b>		
Personal services	9,453,202	8,110,482
Harbor operations	2,049,259	4,368,023
Maintenance	4,491,761	4,029,037
State of Hawaii, surcharge for central service expenses	2,341,865	2,388,447
Fireboat operations	1,605,257	1,086,376
General administration	2,380,909	4,743,309
Department of Transportation, general administration expenses	1,011,208	977,736
	<u>23,333,461</u>	<u>25,703,410</u>
Income from operations before depreciation	<u>42,832,620</u>	<u>37,824,735</u>
<b>DEPRECIATION</b>	<u>11,590,577</u>	<u>11,294,701</u>
Income from operations	<u>31,242,043</u>	<u>26,530,034</u>
<b>NONOPERATING INCOME (EXPENSE)</b>		
Interest income		
Deposits in investment pool	4,706,731	8,615,145
Investment in direct financing lease	1,076,103	1,075,233
Interest expense (Note J)		
Revenue bonds	(9,758,131)	(10,982,005)
Special facility revenue bonds	(948,750)	(948,750)
General obligation bonds	(29,397)	(54,909)
Amortization of bond discount, issue costs and loss on refunding	(637,657)	(642,510)
Loss on disposal of harbor facilities	(18,267)	(123,423)
Other, net	181,135	270,345
	<u>(5,428,233)</u>	<u>(2,790,874)</u>
<b>REFUND OF WHARFAGE FEES (NOTE K)</b>	<u>--</u>	<u>(1,024,613)</u>
Net income before contributions	\$ <u>25,813,810</u>	\$ <u>22,714,547</u>



**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**OF THE PUBLIC UNDERTAKING (Continued)**  
**Fiscal Years Ended June 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
NET INCOME BEFORE CONTRIBUTIONS	\$ 25,813,810	\$ 22,714,547
CAPITAL CONTRIBUTIONS	<u>931,703</u>	<u>--</u>
INCREASE IN NET ASSETS	26,745,513	22,714,547
NET ASSETS AT BEGINNING OF FISCAL YEAR	<u>478,408,865</u>	<u>455,694,318</u>
NET ASSETS AT END OF FISCAL YEAR	\$ <u>505,154,378</u>	\$ <u>478,408,865</u>

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, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 64,698,651	\$ 65,947,220
Cash paid to suppliers	(14,444,161)	(17,152,144)
Cash paid to employees	<u>(9,172,507)</u>	<u>(8,106,918)</u>
Net cash provided by operating activities	<u>41,081,983</u>	<u>40,688,158</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(33,839,235)	(35,344,996)
Payments to refund revenue bonds	(24,116,596)	--
Bond issue costs paid	(428,169)	--
Principal paid on bonds	(7,353,140)	(8,828,424)
Interest paid on bonds	(11,428,977)	(11,202,978)
Proceeds from issuance of refunding revenue bonds	<u>24,548,501</u>	<u>--</u>
Net cash used in capital and related financing activities	<u>(52,617,616)</u>	<u>(55,376,398)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale and maturities of investments	--	493,400
Interest received on investments	<u>6,040,576</u>	<u>9,760,991</u>
Net cash provided by investing activities	<u>6,040,576</u>	<u>10,254,391</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(5,495,057)</u>	<u>(4,433,849)</u>
Cash and cash equivalents at beginning of fiscal year	<u>148,617,333</u>	<u>153,051,182</u>
Cash and cash equivalents at end of fiscal year	\$ <u>143,122,276</u>	\$ <u>148,617,333</u>

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**STATEMENTS OF CASH FLOWS OF THE PUBLIC UNDERTAKING (Continued)**  
**Fiscal Years Ended June 30, 2002 and 2001**

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

	<b>2002</b>	<b>2001</b>
Income from operations	\$ 31,242,043	\$ 26,530,034
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	11,590,577	11,294,701
Provision for doubtful accounts	1,603,000	3,162,000
Other nonoperating income, net	181,135	270,345
Changes in assets and liabilities (Increase) decrease in:		
Receivables, net	(3,251,565)	(1,013,270)
Materials and supplies	5,220	(933)
Prepaid insurance and others	109,118	(112,810)
Increase (decrease) in:		
Payables	150,809	555,729
Accrued vacation	252,238	7,707
Payable to harbor user	(1,024,613)	--
Security deposits	<u>224,021</u>	<u>(5,345)</u>
Net cash provided by operating activities	\$ <u>41,081,983</u>	\$ <u>40,688,158</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:**

Amortization of bond discount, issue costs and loss on refunding amounted to \$637,657 in 2002 and \$642,510 in 2001.

See accompanying notes to financial statements.

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**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**

As of July 1, 2001, the Harbors Division adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 37, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments – Omnibus*. These statements require significant changes in financial statement presentation and disclosures. Certain significant changes include the following:

- For the first time the financial statements include a Management's Discussion and Analysis section providing an analysis of the Harbors Division's overall financial position and results of operations.
- The statement of cash flows is prepared using the direct method which reports operational sources and uses of cash flow by gross cash receipts and gross cash payments.
- The change in the estimated allowance for doubtful accounts is reported as a reduction of operating revenues.

These and other changes are reflected in the accompanying financial statements, including the notes to the financial statements. The financial statements as of and for the fiscal year ended June 30, 2001, were restated in accordance with GASB Statements No. 34 and 37 for comparative purposes.

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (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 GASB. In accordance with GASB standards, the Harbors Division has elected to apply all applicable Financial Accounting Standards Board pronouncements on accounting and financial reporting that were issued on or before 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.
- (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) **Investments** - Unrestricted investments are recorded at cost. The resultant variance from accounting principles generally accepted in the United States of America, which provides for such investments to be valued at amortized cost, is not significant.

In accordance with the provisions of the 1990 Certificate and the 1997 Certificate, monies accumulated in the harbor debt service reserve and harbor reserve and contingency accounts are invested by the Director of Finance. These investments are valued at the lower of face value or market. The resultant variance is not significant from accounting principles generally accepted in the United States of America, which provides for such investments to be valued at fair value for periods beginning after June 15, 1997.

- (5) **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.

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

- (6) **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.
- (7) **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%

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.

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

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (9) ***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.
- (10) ***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.
- (11) ***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.
- (12) ***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 \$1,603,000 and \$3,162,000 for the fiscal years ended June 30, 2002 and 2001, respectively.

**NOTE C - CASH AND INVESTMENTS**

At June 30, 2002 and 2001, 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 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:

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**NOTE D - CAPITAL ASSETS (Continued)**

	Balance July 1, 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	<u>629,203,703</u>	<u>33,838,335</u>	<u>82,340</u>	<u>662,959,698</u>
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	<u>119,387,708</u>	<u>11,590,577</u>	<u>64,074</u>	<u>130,914,211</u>
Construction in progress	<u>52,664,180</u>	<u>25,740,298</u>	<u>27,433,082</u>	<u>50,971,396</u>
	<u>\$ 562,480,175</u>	<u>\$ 47,988,056</u>	<u>\$ 27,451,348</u>	<u>\$ 583,016,883</u>

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
Nondepreciable assets				
Land and improvements	\$ 231,909,867	\$ --	\$ --	\$ 231,909,867
Depreciable assets				
Land improvements	93,034,223	--	--	93,034,223
Wharves	171,940,543	5,896,478	35,381	177,801,640
Other improvements	73,527,497	42,937	--	73,570,434
Buildings	40,815,787	1,086,148	--	41,901,935
Equipment	11,117,435	391,163	522,994	10,985,604
Total at historical cost	<u>622,345,352</u>	<u>7,416,726</u>	<u>558,375</u>	<u>629,203,703</u>
Less accumulated depreciation for:				
Land improvements	15,752,922	2,096,172	--	17,849,094
Wharves	54,027,321	4,692,539	35,381	58,684,479
Other improvements	16,040,620	2,398,689	--	18,439,309
Buildings	16,185,404	1,332,910	--	17,518,314
Equipment	6,521,360	774,391	399,239	6,896,512
Total accumulated depreciation	<u>108,527,627</u>	<u>11,294,701</u>	<u>434,620</u>	<u>119,387,708</u>
Construction in progress	<u>24,790,438</u>	<u>36,347,948</u>	<u>8,474,206</u>	<u>52,664,180</u>
	<u>\$ 538,608,163</u>	<u>\$ 32,469,973</u>	<u>\$ 8,597,961</u>	<u>\$ 562,480,175</u>



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**NOTE D - CAPITAL ASSETS (Continued)**

Depreciation expense was \$11,590,577 and \$11,294,701 for the fiscal years ended June 30, 2002 and 2001, respectively.

**NOTE E - LONG-TERM DEBT**

The changes in long-term debt were as follows:

	Balance July 1, 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	<u>1,076,286</u>	<u>2,218</u>	<u>472,485</u>	<u>606,019</u>
	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	<u>(3,083,773)</u>	<u>(1,185,463)</u>	<u>(269,806)</u>	<u>(3,999,430)</u>
	\$ <u>233,246,436</u>	\$ <u>23,365,257</u>	\$ <u>29,856,431</u>	\$ <u>226,755,262</u>
	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
Revenue bonds	\$ 229,800,000	\$ --	\$ 7,425,000	\$ 222,375,000
Special facility revenue bonds	16,500,000	--	--	16,500,000
General obligation bonds	<u>1,546,626</u>	--	<u>470,340</u>	<u>1,076,286</u>
	247,846,626	--	7,895,340	239,951,286
Less:				
Unamortized discount	(3,890,313)	--	(269,236)	(3,621,077)
Unamortized deferred loss on refunding	<u>(3,339,910)</u>	--	<u>(256,137)</u>	<u>(3,083,773)</u>
	\$ <u>240,616,403</u>	\$ --	\$ <u>7,369,967</u>	\$ <u>233,246,436</u>

**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.

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**NOTE F - REVENUE BONDS PAYABLE (Continued)**

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

The following is a summary of the Bonds as of June 30, 2002:

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current		Noncurrent
				Principal Due July 1, 2002	Installment Payments Due in Anticipation of Principal Payments on July 1, 2003	
1992	July 1, 2019	5.10 - 6.50%	\$ 19,450,000	\$ 550,000	\$ --	\$ --
1992	July 1, 2008	4.75 - 6.20%	13,195,000	1,045,000	--	--
1993	July 1, 2008	4.50 - 6.40%	16,525,000	1,135,000	1,190,000	7,020,000
1994	July 1, 2024	5.50 - 6.25%	54,010,000	2,075,000	2,215,000	48,110,000
1997	July 1, 2027	3.95 - 5.75%	56,290,000	430,000	445,000	53,870,000
2000	July 1, 2029	4.50 - 6.00%	79,405,000	1,840,000	1,935,000	70,320,000
2002	July 1, 2019	3.00 - 5.50%	<u>24,420,000</u>	<u>340,000</u>	<u>1,860,000</u>	<u>22,220,000</u>
			\$ <u>263,295,000</u>	7,415,000	7,645,000	201,540,000
Less:						
				--	(208,283)	(2,743,044)
				--	--	(3,999,430)
				\$ <u>7,415,000</u>	\$ <u>7,436,717</u>	\$ <u>194,797,526</u>

Maturities and sinking fund requirements for the Bonds, including interest of \$152,988,479, in each of the next five years and thereafter are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2003	\$ 19,564,229
2004	19,578,259
2005	19,596,264
2006	19,604,961
2007	19,616,682
Thereafter	<u>264,213,084</u>
	\$ <u>362,173,479</u>

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,

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**NOTE F - REVENUE BONDS PAYABLE (Continued)**

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 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 \$9,963,242. Net revenues of the Public Undertaking amounted to \$49,881,216 or 5.01 times the minimum net revenue requirement.

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**NOTE G - HARBOR REVENUE BOND REQUIREMENTS (Continued)**

***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, 2002.

(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, 2002.

(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, 2002).

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

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**NOTE G - HARBOR REVENUE BOND REQUIREMENTS (Continued)**

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; 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:

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**NOTE G - HARBOR REVENUE BOND REQUIREMENTS (Continued)**

- (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.

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 \$20,092,644. Net revenues of the Public Undertaking amounted to \$49,881,216 or 2.48 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, 2002.

(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, 2002.

(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.

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**NOTE G - HARBOR REVENUE BOND REQUIREMENTS (Continued)**

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, 2002).

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 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.

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**NOTE G - HARBOR REVENUE BOND REQUIREMENTS (Continued)**

(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.

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, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Total minimum lease payments receivable	\$ 26,620,000	\$ 27,568,750
Estimated unguaranteed residual value	3,600,000	3,600,000
Less unearned income	<u>(11,580,055)</u>	<u>(12,656,158)</u>
Net investment in direct financing lease	\$ <u>18,639,945</u>	\$ <u>18,512,592</u>

Minimum future rentals to be received as of June 30, 2002 under the direct financing lease are as follows:



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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2003	\$ 948,750
2004	948,750
2005	948,750
2006	948,750
2007	948,750
Thereafter	<u>21,876,250</u>
	<u>\$ 26,620,000</u>

**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:

<u>Year of Issue</u>	<u>Last Installment Due Date</u>	<u>Interest Rates</u>	<u>Original Amount of Issue</u>	<u>Current</u>		<u>Noncurrent</u>
				<u>Principal Due July 1, 2002</u>	<u>Installment Payments Due in Anticipation of Principal Payments on July 1, 2003</u>	
1992	March 1, 2012	5.15 - 6.40%	\$ 12,870	\$ --	\$ --	\$ 5,004
1993	February 1, 2003	3.85 - 5.00%	468,363	--	58,539	--
1993	July 1, 2002	3.25 - 4.60%	3,412,058	379,094	--	--
1993	November 1, 2010	4.00 - 5.00%	160,901	--	10,728	85,805
1998	April 1, 2009	5.00 - 5.25%	64,631	--	7,886	56,745
2001	August 1, 2015	3.40 - 5.50%	737	--	--	737
2002	February 1, 2015	3.60 - 5.75%	<u>1,481</u>	<u>--</u>	<u>--</u>	<u>1,481</u>
			<u>\$ 4,121,041</u>	<u>\$ 379,094</u>	<u>\$ 77,153</u>	<u>\$ 149,772</u>

Maturities of general obligation bonds, including interest of \$32,755, in each of the next five years and thereafter are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2003	\$ 85,347
2004	24,817
2005	24,527
2006	25,006
2007	24,806
Thereafter	<u>75,177</u>
	<u>\$ 259,680</u>

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**NOTE J - INTEREST COST**

Total interest cost incurred for the fiscal years ended June 30, 2002 and 2001, amounted to \$14,231,177 and \$14,517,402, respectively. Of this amount, \$2,857,242 and \$1,889,228 were capitalized in the respective fiscal years as part of the construction cost of harbor facilities.

**NOTE K - REFUND OF WHARFAGE FEES**

The Harbors Division assesses wharfage fees at various rates for the different types of cargo shipped in and out of DOT's commercial harbors system. A major user of DOT's commercial harbors system requested from the Harbors Division a refund of net wharfage fees overpaid from 1994 to 1998 arising from reporting errors of cargo shipped. In July 2001, the Harbors Division agreed on the amount of overpaid wharfage fees to be refunded. The refund will be applied towards future wharfage fees assessed by the Harbors Division. This refund was recorded as a charge in the accompanying 2001 statement of revenues, expenses and changes in net assets.

**NOTE L - LEASING OPERATIONS**

The Harbors Division's leasing operations consist principally of the leasing of land, wharf and building space under revocable permits and long-term leases. The revocable permits provide for tenancy on a month-to-month basis and are renewable annually at the option of the State. The long-term leases, which are classified as operating leases, expire in various years through 2058. These leases generally call for rental increases every five to ten years based on 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, 2002:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2003	\$ 8,409,000
2004	8,417,000
2005	8,375,000
2006	8,248,000
2007	7,719,000
Thereafter	<u>226,686,000</u>
	<u>\$ 267,854,000</u>

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.

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**NOTE L - LEASING OPERATIONS (Continued)**

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 M - 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.

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. There were no contributions made by the Harbors Division for the fiscal year ended June 30, 2002. Contributions by the Harbors Division for the fiscal years ended June 30, 2001 and 2000 were approximately \$155,000 and \$450,000, respectively. 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. The contribution rate for the fiscal year ended June 30, 2000 was 5.83%.

***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, 2002 and 2001, was approximately \$452,000 and \$412,000, respectively.

**NOTE N - COMMITMENTS**

***Construction contracts.*** The Harbors Division is committed under contracts awarded and orders placed for construction, expenses, supplies, etc. These commitments amounted to approximately \$17,200,000 at June 30, 2002.

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**NOTE N - COMMITMENTS (Continued)**

***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, 2002, approximated \$4,570,000.

***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 O - 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 \$2 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 \$300 million (\$50 million for earthquake and flood) and the annual aggregate for general liability losses per occurrence is \$23 million. The State also has an insurance policy to cover medical malpractice risk in the amount of \$40 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.

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**NOTE P - 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) back to the State to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish 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.

In 1990, in response to *Yamasaki*, the State Legislature adopted Act 304, Session Laws of Hawaii 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance 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, has been paying 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.

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.

On April 2, 1996, the First Circuit Court, State of Hawaii (Court), denied the Defendants' motion for partial summary judgment which sought a ruling from the Court that the State has the authority to alienate Ceded Lands. On March 12, 1998, the Defendants filed another motion (Motion to Dismiss Certain Counts and for Partial Summary Judgment), which the Court heard on July 9, 1998, and denied on August 27, 1998. On September 3, 1998, the

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**NOTE P - CEDED LANDS (Continued)**

Defendants filed a Motion for Leave to File Interlocutory Appeal from Order Denying Motion. This motion was heard on September 24, 1998, and was denied on October 7, 1998. Trial for this concluded on December 4, 2001. The Court has taken the case under advisement.

On September 12, 2001, in the lawsuit of *OHA et al. v State of Hawaii et al.*, Civil No. 94-0205-01 (First Circuit), the Hawaii Supreme Court ruled that Act 304 was effectively repealed by its own terms, and dismissed the case for lack of justiciability, as there was no juridically manageable standard that could be used to determine how much OHA was entitled to receive from the Ceded Lands and noted that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. In the 2002 legislative session, the State Legislature took no action and payments of 20% of revenue were discontinued as of the first quarter of fiscal year 2002.

It is unlikely that OHA will abandon its claims for a portion of the revenues from the Ceded Lands, but the State is unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any, based on activities related to, or income derived from DOT's commercial harbors system situated on ceded lands, and the liability imposed on the Harbors Division. Accordingly, no estimate of loss has been recorded in the accompanying financial statements of the Harbors Division.

Amounts paid and payable to OHA are treated as operating expenses of DOT's commercial harbors system. During the fiscal year ended June 30, 2001, payment to OHA was made by the State on behalf of various state departments, including the Harbors Division. The State's payment of \$5,459,314 for the Harbors Division for the fiscal year ended June 30, 2001, 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 for the fiscal year ended June 30, 2002.

**NOTE Q - 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 \$2,341,865 and \$2,388,447 for the fiscal years ended June 30, 2002 and 2001, respectively.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to \$1,011,208 and \$977,736 for the fiscal years ended June 30, 2002 and 2001, respectively.

The Harbors Division incurred costs of \$1,605,257 and \$1,086,376 for fireboat operation services provided by the City and County of Honolulu during the fiscal years ended June 30, 2002 and 2001, respectively.

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**NOTE Q - 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, 2002 and 2001, amounted to \$84,660 and \$94,913, respectively.

**NOTE R - 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, ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer. The developer and the Harbors Division entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement). The Harbors Division continues to operate the harbor facilities at Piers 8, 9, and 10. The lease between ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal and to reimburse the Harbors Division for all losses in revenues and increased expenses which may be incurred by the Harbors Division. ATDC and the developer have agreed to offset reimbursements due to the Harbors Division for losses in revenues during the construction period, with certain work performed by the developer to repair the structure of Piers 8 through 11, the cost of which would otherwise be incurred by the Harbors Division. The developer is entitled to offset the cost of repairs, not to exceed \$1.1 million, against its obligation to reimburse the Harbors Division for losses in revenues.

The first phase of the Aloha Tower complex development has been completed.

The losses in revenues for the fiscal years ended June 30, 2002 and 2001, amounted to \$1,696,724 and \$1,677,877, respectively, and have been included in rental revenues in the respective fiscal year. As of June 30, 2002 and 2001, amounts due to the Harbors Division were \$4,561,357 and \$2,864,632, respectively.

**NOTE S - 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).

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

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

As part of HCDA's development of the District, 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 T - 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 U - 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, 2002, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

**NOTE V - 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.



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**NOTE V - 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**

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Schedule 1

**CASH AND CASH EQUIVALENTS AND INVESTMENTS IN TIME CERTIFICATES  
 OF DEPOSIT AND REPURCHASE AGREEMENTS OF THE PUBLIC UNDERTAKING  
 June 30, 2002**

Unrestricted cash and cash equivalents	\$	<u>82,403,250</u>
Restricted cash and cash equivalents and investments in time certificates of deposit and repurchase agreements:		
For construction, including time certificates of deposit and repurchase agreements of \$26,094,447		32,842,134
For matured revenue bonds and interest coupons payable		346,800
For general obligation bond debt service payments		666,873
For revenue bond debt service payments		13,527,540
For insurance deductibles		897,765
For security deposits		2,438,021
For payment to the Department of Budget and Finance		<u>9,999,893</u>
		<u>60,719,026</u>
Total	\$	<u>143,122,276</u>
With Director of Finance, State of Hawaii	\$	142,200,720
With fiscal agents		346,800
On hand		<u>574,756</u>
Total	\$	<u>143,122,276</u>

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**CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING**  
 Fiscal Year Ended June 30, 2002

Project	Balance, June 30, 2001	Additions by Source of Funds				Capitalized Interest	Transfer Out	Balance, June 30, 2002
		Harbor Special Fund	Harbor Revenue Bonds					
Statewide:	\$ 521,850	\$ --	\$ --	\$ --	\$ 26,081	\$ --	\$ 547,931	
Statewide passenger terminal facility								
Statewide surveying	38,037	--	--	--	614	--	38,651	
Statewide removal of architectural barriers	95,645	398,615	--	--	16,070	--	510,330	
Honolulu Harbor:								
Lead paint and asbestos study	180,100	--	--	--	8,427	--	188,527	
Sand Island tunnel feasibility study	966,911	--	--	--	11,188	--	978,099	
Piers 24-29 shed demolition and site improvement	1,525,001	9,858	44,018	--	79,892	--	1,658,769	
Fuel pier construction and utility	23,444	--	--	--	1,093	--	24,537	
Pier 32 tank farm, pipeline removal	784,451	28,132	70,040	--	24,908	907,531	--	
Sand Island container yard reconstruction	1,249,573	610,409	--	--	80,961	--	1,940,943	
Harbor planning	220,027	--	--	--	11,120	--	231,147	
Domestic commercial fishing village	15,877,698	894,020	--	--	816,868	5,151,083	12,437,503	
Petroleum, oil and lubricant remediation study	412,638	88,746	--	--	22,084	--	523,468	
Demolition of storage tanks	92,674	--	--	--	4,742	--	97,416	
Pier 19 ferry and cruise passenger terminal	368,163	1,312,121	--	--	56,280	--	1,736,564	
Pier 2 cruise ship terminal	192,991	474,836	--	--	23,260	--	691,087	
Keehi Industrial Park development plan	190,805	57,500	--	--	5,942	254,247	--	
Piers 19-29 development plan	215,705	(4,996)	--	--	5,625	216,334	--	
Sand Island container yard light pole repairs	155,526	10,507	--	--	38	--	166,071	
Piers 16-17 electrical panel replacement	--	6,130	--	--	--	--	6,130	
Pier 39 sprinkler and landscaping installation	1,598	--	--	--	87	--	1,685	
Replace air conditioning at Oahu District Office	379	88,512	--	--	--	88,891	--	
Pier 51 water line replacement	117,342	160,609	--	--	1	125,858	152,094	
Maintenance of elevators and escalators	115,637	2,250	--	--	6,331	--	124,218	
Piers 8-11 bullrail installation	87,384	125,775	--	--	--	213,159	--	
Piers 1-2 fender system repairs	133,017	12,527	--	--	--	145,544	--	
Aloha Tower generator replacement	747	110,684	--	--	--	111,431	--	
Aloha Tower lighting improvements	205	53,978	--	--	--	--	54,183	
Navigational improvements	558,125	--	--	--	29,191	--	587,316	
Sand Island container yard annex	632,210	28,767	--	--	2,915	663,892	--	
Sand Island stevedore driveway access and parking	5,795	155,729	--	--	4,643	--	166,167	
Bullrail installation	74	24,977	--	--	698	--	25,749	
Repair concrete column bases at Pier 10	--	111,227	--	--	--	--	111,227	
Balance forward	\$ 24,763,752	\$ 4,760,913	\$ 114,058	\$ 1,239,059	\$ 7,877,970	\$ 22,999,812		

State of Hawaii  
Department of Transportation  
Harbors Division  
CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING  
Fiscal Year Ended June 30, 2002

Project	Balance, June 30, 2001	Additions by Source of Funds				Transfer Out	Balance, June 30, 2002
		Harbor Special Fund	Harbor Revenue Bonds	Capitalized Interest			
Balance carried forward	\$ 24,763,752	\$ 4,760,913	\$ 114,058	\$ 1,239,059	\$ 7,877,970	\$ 22,999,812	
Honolulu Harbor:							
Bulkhead repairs at Piers 25-28	--	20,101	--	--	--	20,101	
Repair shed wall at Pier 32	--	57,660	--	--	--	57,660	
Environmental investigation near Pier 32	--	4,225	--	117	--	4,342	
Concrete repairs at Pier 11 ramp	--	38,528	--	--	--	38,528	
Dredge Ewa end of Pier 51A	--	131,363	--	3,652	--	135,015	
Install video monitoring system	--	67,249	--	1,870	--	69,119	
Relamp floodlights at Piers 51-53	--	114	--	--	--	114	
Pile repairs at Pier 40	--	368	--	2	--	370	
Reroof Pier 40 office building	--	103	--	--	--	103	
Kewalo Basin:							
Catwalk replacement	2,664,535	179,847	--	61,315	2,905,697	--	
Electrical repairs	329	103,204	--	--	--	103,533	
Demolition of former GRG Enterprise	7,773	68,385	--	2,322	--	78,480	
Electrical pedestal repairs at Piers A and B	--	195	--	--	--	195	
Barbers Point Harbor:							
Deep Draft Harbor improvements	9,507,171	581,032	8,510,607	761,261	738,436	18,621,635	
Pier 5 extension and utility improvement	6,755,701	254,017	--	242,946	7,252,664	--	
Replace bullrails at Piers 1, 5 and 6	--	92,387	--	--	--	92,387	
Kahului Harbor:							
Kaumalapau Harbor survey	931	--	--	47	--	978	
Pier 1A cruise terminal development plan	1,171,537	(2,816)	--	15,847	1,184,568	--	
Cargo yard expansion	285,417	--	--	12,431	--	297,848	
Drainage master plan	102,128	--	--	5,678	--	107,806	
Barge terminal improvements	--	14,633	--	--	--	14,633	
Pier 1 improvements	1,913,335	25,155	3,140,971	189,606	--	5,269,067	
Pier 3 container yard reconstruction	187,623	55,860	--	11,700	--	255,183	
Piers 2 and 3 yard pavement	114	--	--	6	--	120	
Wharf Street shed renovation	2,727	--	--	152	--	2,879	
Navigational study	51,280	--	--	2,780	--	54,060	
Balance forward	\$ 47,414,353	\$ 6,452,523	\$ 11,765,636	\$ 2,550,791	\$ 19,959,335	\$ 48,223,968	

State of Hawaii  
Department of Transportation  
Harbors Division  
**CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING**  
Fiscal Year Ended June 30, 2002

Project	Balance, June 30, 2001	Additions by Source of Funds				Transfer Out	Balance, June 30, 2002
		Harbor Special Fund	Harbor Revenue Bonds	Capitalized Interest			
Balance carried forward	\$ 47,414,353	\$ 6,452,523	\$ 11,765,636	\$ 2,550,791	\$ 19,959,335	\$ 48,223,968	
<b>Kahului Harbor:</b>							
Puunene yard pavement	343	99,123	--	--	--	99,466	
Siding replacement at Pier 1A shed	--	2,074	--	--	--	2,074	
<b>Kaunakakai Harbor:</b>							
Bullrail installation	45	10,046	--	282	--	10,373	
<b>Hilo Harbor:</b>							
Hilo Harbor improvements	254,209	1,937,504	--	62,557	1,893,515	360,755	
Pave former molasses tanks area near Pier 3	429,563	820,152	--	45,552	--	1,295,267	
Environmental impact study	269,475	49,251	--	--	318,726	--	
Pier 1 fender system repair	145,713	--	--	--	--	145,713	
Port timber fender system replacement	17,021	373,996	--	10,377	401,394	--	
Piers 1-2 roll up door repair	551	831	--	9	--	1,391	
Pier 3 breasting dolphins and catwalks	297	255,729	--	7,125	--	263,151	
Bullrail installation	45	12,292	--	344	--	12,681	
Replacement of timber fender system at Pier 1	--	31	--	--	--	31	
<b>Kawaihae Harbor:</b>							
Pave barge terminal area	3,906,004	433,838	--	166,877	4,506,719	--	
Repair fender system, phase 4	--	124,966	--	--	--	124,966	
<b>Nawiliwili Harbor:</b>							
Pier 3 improvements	35,031	--	--	1,744	--	36,775	
Pier 2 shed siding repairs	--	3,915	--	--	--	3,915	
Environmental risk assessment	32,137	645	--	1,760	--	34,542	
Pier 2 extension	9,151	325,691	--	9,508	--	344,350	
Bullrail installation	45	11,288	--	316	--	11,649	
Repair roof at Pier 3 shed	--	48	--	--	--	48	
<b>Port Allen:</b>							
Repair fire sprinkler system	150,197	203,196	--	--	353,393	--	
Replace siding	--	281	--	--	--	281	
	\$ 52,664,180	\$ 11,117,420	\$ 11,765,636	\$ 2,857,242	\$ 27,433,082	\$ 50,971,396	

State of Hawaii  
 Department of Transportation  
 Harbors Division  
**GENERAL OBLIGATION BONDS OF THE PUBLIC UNDERTAKING**  
 June 30, 2002

State of Hawaii General Obligation Bonds	Date of Bonds	Last Installment Due Date	Interest Rates	Original Amount of Issue	Amount Repaid	Balance, June 30, 2002		Total
						Current	Noncurrent	
Series BW	March 1, 1992	March 1, 2012	5.15 - 6.40%	\$ 12,870	\$ 7,866	\$ --	\$ 5,004	\$ 5,004
Series CD	February 1, 1993	February 1, 2003	3.85 - 5.00%	468,363	409,824	58,539	--	58,539
Series CF	July 1, 1993	July 1, 2002	3.25 - 4.60%	3,412,058	3,032,964	379,094	--	379,094
Series CI	November 1, 1993	November 1, 2010	4.00 - 5.00%	160,901	64,368	10,728	85,805	96,533
Series CS	April 1, 1998	April 1, 2009	5.00 - 5.25%	64,631	--	7,886	56,745	64,631
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
				<u>\$ 4,121,041</u>	<u>\$ 3,515,022</u>	<u>\$ 456,247</u>	<u>\$ 149,772</u>	<u>\$ 606,019</u>

State of Hawaii  
 Department of Transportation  
 Harbors Division  
**REVENUE BONDS OF THE PUBLIC UNDERTAKING**  
 June 30, 2002

	Final Redemption Date	Interest Rates	Original Amount of Issue	Balance, June 30, 2002		Total
				Current	Noncurrent	
Issue of 1992	July 1, 2019	5.10 - 6.50%	\$ 19,450,000	\$ 550,000	--	\$ 550,000
Refunding issue of 1992	July 1, 2008	4.75 - 6.20%	13,195,000	1,045,000	--	1,045,000
Refunding issue of 1993	July 1, 2008	4.50 - 6.40%	16,525,000	2,325,000	7,020,000	9,345,000
Issue of 1994	July 1, 2024	5.50 - 6.25%	54,010,000	4,290,000	48,110,000	52,400,000
Issue of 1997	July 1, 2027	3.95 - 5.75%	56,290,000	875,000	53,870,000	54,745,000
Issue of 2000	July 1, 2029	4.50 - 6.00%	79,405,000	3,775,000	70,320,000	74,095,000
Issue of 2002	July 1, 2019	3.00 - 5.50%	<u>24,420,000</u>	<u>2,200,000</u>	<u>22,220,000</u>	<u>24,420,000</u>
			\$ <u>263,295,000</u>	\$ <u>15,060,000</u>	\$ <u>201,540,000</u>	\$ <u>216,600,000</u>



**State of Hawaii  
Department of Transportation  
Harbors Division**

**Schedule 5**

**OPERATING REVENUES BY DISTRICT OF THE PUBLIC UNDERTAKING  
Fiscal Year Ended June 30, 2002**

	<u>Oahu</u>	<u>Hawaii</u>	<u>Maui</u>	<u>Kauai</u>	<u>Total</u>
<b>Services:</b>					
Wharfage	\$ 26,204,236	\$ 3,583,138	\$ 3,622,521	\$ 1,757,657	\$ 35,167,552
Dockage	3,568,494	261,541	219,821	183,103	4,232,959
Demurrage	874,870	475,764	163,097	11,501	1,525,232
Port entry	743,476	104,476	88,624	61,730	998,306
Mooring charges	932,728	18,242	837	70,225	1,022,032
Cleaning wharves	90,365	(2,322)	35	6,784	94,862
Other	<u>3,223</u>	<u>322</u>	<u>1,959</u>	<u>2,939</u>	<u>8,443</u>
Total services	<u>32,417,392</u>	<u>4,441,161</u>	<u>4,096,894</u>	<u>2,093,939</u>	<u>43,049,386</u>
<b>Rentals:</b>					
Wharf space and land	15,272,720	269,030	244,586	537,142	16,323,478
Storage	1,771,995	127,154	223,710	367,371	2,490,230
Auto parking	925,577	26,882	65,633	76,101	1,094,193
<b>Pipelines:</b>					
Oil	1,022,775	318,886	372,541	129,958	1,844,160
Water	90,232	25,336	15,610	20,743	151,921
Molasses	(240)	--	21,076	1,565	22,401
Bulk materials	--	19,105	14,544	25,577	59,226
Ammonia	1,408	--	1,510	601	3,519
Other	<u>5,400</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,400</u>
Total rentals	<u>19,089,867</u>	<u>786,393</u>	<u>959,210</u>	<u>1,159,058</u>	<u>21,994,528</u>
<b>Others:</b>					
Sale of utilities	430,397	27,665	64,964	29,897	552,923
Permits to vendors	124,537	59,315	28,682	176,583	389,117
Miscellaneous	<u>140,643</u>	<u>20,565</u>	<u>9,071</u>	<u>9,848</u>	<u>180,127</u>
Total others	<u>695,577</u>	<u>107,545</u>	<u>102,717</u>	<u>216,328</u>	<u>1,122,167</u>
	<u>\$ 52,202,836</u>	<u>\$ 5,335,099</u>	<u>\$ 5,158,821</u>	<u>\$ 3,469,325</u>	<u>\$ 66,166,081</u>

**State of Hawaii  
Department of Transportation  
Harbors Division**

**Schedule 6**

**SELECTED OPERATING EXPENSES BY DISTRICT OF THE PUBLIC UNDERTAKING  
Fiscal Year Ended June 30, 2002**

	District				Administration	Total
	Oahu	Hawaii	Maui	Kauai		
Personal services	\$ 4,824,368	\$ 551,390	\$ 615,075	\$ 624,822	\$ 2,837,547	\$ 9,453,202
Harbor operations	1,316,890	204,774	199,072	185,140	143,383	2,049,259
Maintenance	2,980,917	686,198	555,342	117,555	151,749	4,491,761
General administration	<u>213,202</u>	<u>21,366</u>	<u>25,176</u>	<u>20,607</u>	<u>2,100,558</u>	<u>2,380,909</u>
	<u>\$ 9,335,377</u>	<u>\$ 1,463,728</u>	<u>\$ 1,394,665</u>	<u>\$ 948,124</u>	<u>\$ 5,233,237</u>	<u>\$ 18,375,131</u>

**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, 2002**

**Schedule 7**

Net revenues, as defined by the 1990 Certificate:

Income from operations before depreciation		\$ 42,832,620
--	--	---------------

Add:

Interest income, exclusive of investment in direct financing lease		
--	--	--

	\$ 4,706,731	
--	--------------	--

State of Hawaii, surcharge for central service expenses		
---	--	--

	2,341,865	
--	-----------	--

Cash available in the harbor reserve and contingency account		
--	--	--

	<u>          --</u>	<u>7,048,596</u>
--	---------------------	------------------

		\$ <u>49,881,216</u>
--	--	----------------------

Harbor revenue bond debt service requirements under the 1990 Certificate, including minimum sinking fund payments during the current fiscal year

		\$ <u>9,963,242</u>
--	--	---------------------

Ratio of net revenues to harbor revenue bond debt service requirements

		<u>5.01</u>
--	--	-------------

**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, 2002**

**Schedule 8**

Net revenues, as defined by the 1997 Certificate:		
Income from operations before depreciation	\$	42,832,620
Add:		
Interest income, exclusive of investment in direct financing lease	\$	4,706,731
State of Hawaii, surcharge for central service expenses		2,341,865
Cash available in the harbor reserve and contingency account		<u>7,048,596</u>
	\$	<u>49,881,216</u>
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments during the current fiscal year	\$	<u>20,092,644</u>
Ratio of net revenues to harbor revenue bond debt service requirements		<u>2.48</u>