Financial statements and report of independent certified public accountants

State of Hawaii, Department of Transportation, Harbors Division

June 30, 2006

Submitted by
The Auditor
State of Hawaii

C O N T E N T S

Report of Independent Certified Public Accountants

The Auditor
State of Hawaii

We have audited the accompanying statement 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, 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Harbors Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 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, 2006, 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, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note C to the financial statements, net assets as of July 1, 2005 has been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006, on our consideration of the Harbors Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that

1132 Bishop Street
Suite 1000
Honolulu, Hawaii 96813-2830
T 808.536.0066
F 808.523.8590
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information included in Schedules 1 through 6 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.

Grant Thornton LLP

Honolulu, Hawaii
November 16, 2006

State of Hawaii
Department of Transportation
Harbors Division

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

This section of the Harbors Division, Department of Transportation of the State of Hawaii, relating to the Public Undertaking (Harbors Division) financial report, presents the reader with an introduction and overview of the Harbors Division's financial performance for the fiscal year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

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

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

FINANCIAL HIGHLIGHTS

- The Harbors Division's net assets were $598.1 million in 2006 compared to $570.2 million in 2005, as restated, an increase of 4.9%.

- Wharfage revenues were $41.5 million in 2006 compared to $39.9 million in 2005, an increase of 4.0%.

- Total expenses were $61.6 million in 2006 compared to $64.2 million in 2005, as restated, a decrease of 4.0%.

Total operating revenues increased by 11.7% from $74.5 million in fiscal year 2005, to $83.2 million in fiscal year 2006.

The majority of operating revenues are directly related to cargo and ship operations. Service revenues, which include wharfage, dockage and passenger fees, generated $56.3 million in fiscal year 2006, an increase of $3.4 million or 6.4% over fiscal year 2005. The increase in revenues was primarily due to a $1.6 million increase in wharfage revenue due to a 12.8% rise in container movements and a 28.2% increase in auto activities. The increase in auto activities is primarily due to Pasha Hawaii Transport Lines who introduced auto service to the State in March 2005, offering roll on/roll off service for vehicles between the U.S. Mainland and Hawaii. In addition, Matson continues to report growth after expanding its auto service in 2004.

Approximately 1.9 million passengers (inbound and outbound) passed through these harbors in fiscal year 2006, an increase of 28.5% over fiscal year 2005's 1.5 million passengers. Passenger fee revenue for fiscal years 2006 and 2005 were $4.5 million and $3.6 million, respectively. The 24.2% revenue increase from 2005 to 2006 is due to growth in the number of cruise ship passengers.

Since December 2001, NCL has operated passenger cruises that included a required stopover in the Republic of Kirabati (Fanning Island) to comply with federal restrictions on foreign flagged vessels. In 2003, NCL obtained an exemption from federal maritime law to operate three foreign built ships under the U.S. flag in Hawaii. These ships have all commenced service. The Pride of Aloha began service among the islands in July 2004, followed by the Pride of America in July 2005 and the Pride of Hawaii in June 2006. Passengers on these U.S. flagged vessels taking a continuous trip whose point of origin and termination is a state port were charged a fee of $2.50 at the point of origin and termination and an in-transit fee of $1.85 at each of the other ports under the tariff for disembarking and embarking. Other passengers are assessed a $2.50 passenger fee for embarking and a $2.50 passenger fee for disembarking. While passenger counts increased by 28.5% in 2006 over 2005, revenues increased by 24.2% as approximately 52.5% of the 2006 passengers were in-transit.

Gross rental revenues in fiscal years 2006 and 2005, were $25.4 million and $27.3 million, respectively. The decrease of $1.9 million or 6.9% from fiscal year 2005 to 2006 was primarily due to the termination of Matson Terminal Inc.'s rental of exclusive use of space to support their roll-on/roll-off operations. Net rental revenues after deducting the provision for doubtful accounts were $24.9 million for 2006 and $20.3 million for 2005. The provision for doubtful accounts for the fiscal year ending June 30, 2006 was approximately $500,000.

Operating expenses excluding depreciation decreased by 2.8% from $39.3 million in fiscal year 2005, as restated, to $38.2 million in fiscal year 2006. The decrease from 2005 to 2006 of $1.1 million is primarily due to an approximate $3.8 million decrease in maintenance expenses. The decrease is primarily due to a lower number of special maintenance and repair projects undertaken in the fiscal year. Operational expenses increased by $700,000 from 2005 to 2006 primarily due to additional security expenses, increases in utilities costs and other expenses. Personnel services expenses increased by approximately $300,000 primarily due to collective bargaining pay increases and increases in accrued vacation.

A summary of operations and changes in net assets for the fiscal years ended June 30, 2006 and 2005 follows:

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

	As of June 30,		2006 – 2005	
	2006	2005 (as restated)	Increase (decrease)	% Change
Operating revenues	$ 83,217	$ 74,527	$ 8,690	12%
Non-operating revenues	6,184	4,791	1,393	29%
Total revenues	89,401	79,318	10,083	13%
Depreciation	13,987	14,749	(762)	(5%)
Other operating expenses	38,223	39,309	(1,086)	(3%)
Non-operating expenses	9,387	10,173	(786)	(8%)
Total expenses	61,597	64,231	(2,634)	(4%)
Income before capital contributions	27,804	15,087	12,717	84%
Capital contributions	122	385	(263)	(68%)
INCREASE IN NET ASSETS	$ 27,926	$ 15,472	$ 12,454	80%

A condensed summary of the Harbors Division's net assets at June 30, 2006 and 2005 are shown below.

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

	Year ended June 30,		2006 – 2005	
	2006	2005 (as restated)	Increase (decrease)	% Change
Current and other assets	$191,427	$193,157	$ (1,730)	(1%)
Capital assets	611,054	580,835	30,219	5%
Total assets	802,481	773,992	28,489	4%
Long-term debt outstanding	175,847	184,434	(8,587)	(5%)
Other liabilities	28,516	19,366	9,150	47%
Total liabilities	204,363	203,800	563	0%
Net assets				
Invested in capital assets, net of related debt	437,575	398,893	38,682	10%
Restricted	10,898	10,898	–	0%
Unrestricted	149,645	160,401	(10,756)	(7%)
Total net assets	$598,118	$570,192	$27,926	5%

The largest portion of the Harbors Division's net assets (73% at June 30, 2006) represents its investment in capital assets (e.g., land, wharves, buildings, improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Harbors Division uses these capital assets to provide services to its users of the harbors system; consequently, these assets are not available for future spending. Although the Harbors Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay for such liabilities.

The change in net assets is an indicator of whether the overall fiscal condition of the Harbors Division improved or worsened during the fiscal year. The change in net assets may serve over time as a useful indicator of the Harbor Division's financial position. The total assets exceeded liabilities by approximately $598 million at June 30, 2006, and net assets increased by approximately $28 million from June 30, 2005.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2006, the Harbors Division had $611 million invested in capital assets as shown in Table 3. There was a net increase (additions, deductions and depreciation) of $30.2 million from the end of the prior fiscal year.

Table 3
Capital Assets
(in thousands of dollars)

	Year ended June 30,		2006 – 2005	
	2006	2005 (as restated)	Increase (decrease)	% Change
Land and land improvements	$ 362,054	$ 360,630	$ 1,424	0%
Wharves	215,361	212,296	3,065	1%
Other improvements	69,647	69,615	32	0%
Buildings and improvements	53,775	47,130	6,645	14%
Equipment	9,427	9,450	(23)	0%
Subtotal	710,264	699,121	11,143	2%
Less accumulated depreciation	(164,831)	(151,555)	(13,276)	9%
Subtotal	545,433	547,566	(2,133)	0%
Construction in progress	65,621	33,269	32,352	97%
Total	$ 611,054	$ 580,835	$ 30,219	5%

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2006, included the following:

- $6.1 million Ferry Terminal at Pier 19, Honolulu Harbor, Oahu
- $1.2 million Installation of Bullrails, Honolulu and Kalaeloa Barbers Point Harbor, Oahu
- $989,000 Keehi Industrial Park Drainage Improvements, Honolulu Harbor, Oahu
- $974,000 Construction of Mooring Dolphin at Pier 1C, Kahului Harbor, Maui

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

- $37.4 million Design and Build Barges and Vehicle Ramp Systems for Inter-Island Ferry Service, Statewide
- $25.0 million Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- $24.0 million Reconstruction of Pier 52 & 53 Container Yard, Sand Island, Oahu
- $5.5 million Segmented Pier 3 improvements, Nawiliwili Harbor, Kauai
- $4.0 million Pier 3 breasting dolphins and catwalks, Hilo Harbor, Hawaii
- $4.0 million Construction of Miscellaneous Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- $3.6 million Reconstruction of Puunene Container Yard, Kahului Harbor, Maui
- $2.2 million Replacement of Pier 3 Fendering System at Nawiliwili Harbor, Kauai
- $2.2 million Pier 1 Comfort Station, waterline and sewer line improvements, Kahului Harbor, Maui
- $601,000 Methane Mitigation, Piers 36-38, Lease Parcel 8, Honolulu Harbor, Oahu
- $563,000 Installation of Radiation Portal Monitoring System at Fort Armstrong, Honolulu Harbor, Oahu (Project is not a Harbors capital asset addition. The project assets and operation belong with the Customs Border Protection agency.)
- $531,000 Crash Barrier Gates for Container Terminals, Honolulu Harbor, Oahu

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

- $35.0 million Construction of Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii
- $20.0 million Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu
- $2.5 million Demolition of the Pier 2 Shed and Miscellaneous Site Work at Inter-Island Barge Terminal, Kahului Harbor, Maui
- $1.0 million Passenger Gangway at Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- $750,000 Statewide Maritime Identification Credentialing System
- $550,000 Security Surveillance System for Neighbor Island Passenger Terminals, Statewide

The Harbors Division is committed under contracts awarded for capital improvement projects totaling approximately $42.0 million as of June 30, 2006.

Additional information regarding the Harbors Division's capital assets can be found in note E.

Indebtedness

Harbors System Revenue Bonds and Reimbursable General Obligation Bonds

As of June 30, 2006, $180,865,000 of harbors system revenue bonds was outstanding compared to $189,890,000 as of June 30, 2005. The last series of "new money" bonds to fund capital improvement projects was issued in April 2000. The Harbors Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Harbors Revenue Fund.

As of June 30, 2006, there were no balances outstanding of reimbursable general obligation bonds issued in 2002 and prior for the harbors system, compared to $111,281 as of June 30, 2005. These bonds were general obligations of the State. Since the proceeds were used to finance improvements to the harbors system, Harbors Division is required to reimburse the State General Fund for the payment of the principal and interest on such bonds.

Additional information regarding the Harbors Division's indebtedness can be found in notes F, G, and H.

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

Credit Rating and Bond Insurance

All harbor system revenue bonds issued since 1997 have been issued with bond insurance. As of June 30, 2006, the underlying ratings for harbor system revenue bonds were as follows:

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

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

Bond Covenants

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

The Harbors Division currently enjoys a coverage ratio of 3.38 under the 1997 Harbor Revenue Bond Certificate as compared to the prior fiscal year's ratio of 2.79, as restated.

REQUEST FOR INFORMATION

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

State of Hawaii
Department of Transportation
Harbors Division

STATEMENT OF NET ASSETS OF THE PUBLIC UNDERTAKING

June 30, 2006

ASSETS

CURRENT ASSETS	
Cash and cash equivalents (notes B and D)	$ 104,535,902
Receivables	
Accounts receivable, less allowance for doubtful accounts of $2,158,000	7,525,531
Notes receivable, less allowance for doubtful accounts of $8,360,900 (note P)	334,370
Interest	1,397,512
Grant	304,999
Other	214,271
Materials and supplies, at cost	231,242
Prepaid insurance and others	23,800
Total current assets	114,567,627
RESTRICTED ASSETS	
Current	
Cash and cash equivalents (notes B and D)	74,491,092
Total current restricted assets	74,491,092
CAPITAL ASSETS (notes B and E)	
Non-depreciable facilities	
Land	160,202,437
Land improvements	76,086,739
Other improvements	66,908
	236,356,084
Depreciable facilities	
Land improvements	125,698,206
Wharves	215,361,524
Other improvements	69,646,543
Buildings	53,774,996
Equipment	9,426,703
	473,907,972
Less accumulated depreciation	164,831,135
	309,076,837
Construction in progress	65,620,635
	611,053,556
OTHER ASSET	
Unamortized bond issue costs	2,368,875
	$ 802,481,150

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES (payable from current assets)	
Accounts payable	$ 3,692,818
Accrued workers' compensation	149,331
Contracts payable, including retainages	1,338,717
Accrued vacation (notes B and F)	589,583
Due to Department of Budget and Finance	8,534,694
Total current liabilities (payable from current assets)	14,305,143
CURRENT LIABILITIES (payable from restricted assets)	
Contracts payable, including retainages	4,934,310
Revenue bonds payable, current maturities (notes F and G)	8,937,581
Accrued interest payable	4,906,581
Security deposits	2,562,289
Total current liabilities (payable from restricted assets)	21,340,761
LONG-TERM LIABILITIES	
Accrued workers' compensation	311,746
Long-term debt, less current maturities	
Revenue bonds payable, net (notes F and G)	166,909,656
Accrued vacation (notes B and F)	1,495,780
Total long-term liabilities	168,717,182
Total liabilities	204,363,086
NET ASSETS	
Invested in capital assets, net of related debt	437,575,194
Restricted - reserved for revenue bond requirements	10,897,658
Unrestricted net assets	149,645,212
Total net assets	598,118,064
	$ 802,481,150

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Transportation
Harbors Division

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS OF THE PUBLIC UNDERTAKING

Year ended June 30, 2006

Operating revenues, net	
Services	$ 56,284,498
Rentals	24,915,862
Others	2,017,110
	83,217,470
Operating expenses before depreciation	
Personnel services	11,862,588
Harbor operations	11,549,200
Maintenance	6,755,168
State of Hawaii, surcharge for central service expenses (note O)	3,083,186
Fireboat operations (note O)	1,814,908
General administration	1,810,272
Department of Transportation, general administration expenses (note O)	1,348,216
	38,223,538
Income from operations before depreciation	44,993,932
Depreciation	13,986,719
Income from operations	31,007,213
Nonoperating income (expense)	
Interest income	
Deposits in investment pool	6,184,167
Interest expense (note I)	
Revenue bonds	(7,655,609)
Other	(200,480)
Amortization of bond discount, issue costs and loss on refunding	(671,818)
Loss on disposal of capital assets	(858,956)
	(3,202,696)
Income before contributions	27,804,517
Capital contributions	121,894
INCREASE IN NET ASSETS	27,926,411
Net assets as of July 1, 2005, as previously reported	574,086,315
Cumulative effect of restatement on prior years (note C)	(3,894,662)
Net assets as of July 1, 2005, as restated	570,191,653
Net assets at June 30, 2006	$ 598,118,064

The accompanying notes are an integral part of this statement.

State of Hawaii
Department of Transportation
Harbors Division

STATEMENT OF CASH FLOWS OF THE PUBLIC UNDERTAKING

Year ended June 30, 2006

Cash flows from operating activities:	
Cash received from customers	$ 82,395,970
Cash paid to suppliers	(24,077,845)
Cash paid to employees	(12,157,203)
Net cash provided by operating activities	46,160,922
Cash flows from capital and related financing activities:	
Government grants received in aid of construction	541,484
Acquisition and construction of capital assets	(45,063,868)
Principal paid on bonds	(9,141,356)
Interest paid on bonds	(7,841,200)
Proceeds from debt payable to Department of Budget and Finance	7,101,000
Net cash used in capital and related financing activities	(54,403,940)
Cash flows from investing activities	
Interest received	5,960,874
Net cash provided by investing activities	5,960,874
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,282,144)
Cash and cash equivalents at beginning of fiscal year	181,309,138
Cash and cash equivalents at end of fiscal year	$ 179,026,994
Reconciliation of operating income to net cash provided by operating activities:	
Income from operations	$ 31,007,213
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	13,986,719
Provision for doubtful accounts	462,022
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	(1,130,574)
Materials and supplies	(202,793)
Increase (decrease) in:	
Payables	2,477,878
Accrued vacation	(294,615)
Accrued workers' compensation	8,020
Security deposits	(152,948)
Net cash provided by operating activities	$ 46,160,922
Supplemental disclosure of noncash capital and related financing activities:	
Amortization of bond discount, issue costs and loss on refunding	$ 671,818

The accompanying notes are an integral part of these statements.

State of Hawaii
Department of Transportation
Harbors Division

NOTES TO FINANCIAL STATEMENTS OF THE PUBLIC UNDERTAKING

June 30, 2006

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 include the Harbors Division's financial activities.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Measurement Focus and Basis of Accounting

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

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

2. Use of Estimates

   The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

5. Risk Management

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

6. Capital Assets and Depreciation

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

Capital assets and their related straight-line rates used to compute depreciation are as follows:

	Rates	Capitalization Threshold
Land improvements	1.0% – 4.0%	$100,000
Wharves	1.0% – 10.0%	100,000
Buildings	1.5% – 20.0%	100,000
Other improvements	2.0% – 20.0%	100,000
Equipment	8.0%	5,000

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Bond Issue Costs

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

8. Unamortized Debt Premium (Discount)

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

9. Refunding of Debt

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

10. Accrued Vacation

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

11. Operating Revenues

Operating revenues are those that result from providing goods and services. It excludes revenues related to capital and related financing activities, noncapital financing activities, or investing activities. Operating revenues are reported net of the provision for doubtful accounts which was $462,022 for the year ended June 30, 2006.

12. Capital Contributions

The Harbors Division receives federal grants for capital asset acquisition and facility development, which are reported in the statement of revenues, expenses and changes in net assets, after non-operating revenues and expenses as capital contributions.

NOTE C – RESTATEMENT OF NET ASSETS

Net assets as of July 1, 2005 has been restated for the cumulative effect of an overstatement of capital assets, accumulated depreciation, and construction-in-progress. Net assets as of July 1, 2005 decreased by $3,894,662 as a result of the overstatement of capital assets of $23,958,295, overstatement of accumulated depreciation of

NOTE C – RESTATEMENT OF NET ASSETS (continued)

$21,525,519 and overstatement of construction-in-progress of $1,461,886. For the year ended June 30, 2005, maintenance expenses and interest expense would have increased by $562,840 and $183,587, respectively, and general administration and depreciation expense would have decreased by $5,071 and $1,249,462, respectively, in the statement of revenues, expenses and changes in net assets. The financial statements were adjusted to reflect the transfer of certain assets to other State agencies (note Q), to correct errors in useful lives and the realizability of certain construction-in-progress amounts. The effects of the restatement were as follows:

	2005	
	As previously reported	As restated
Non-depreciable facilities		
Land and improvements	$240,558,131	$236,356,083
Depreciable facilities		
Land improvements	124,313,276	124,274,005
Wharves	222,064,599	212,296,139
Other improvements	74,907,783	69,615,267
Buildings	51,238,436	47,129,471
Equipment	9,997,197	9,450,162
Accumulated depreciation	173,080,604	151,555,085
Construction in progress	34,731,207	33,269,321
Total capital assets	584,730,025	580,835,363
Total assets	777,886,815	773,992,153
Net assets		
Invested in capital assets, net of related debt	402,787,225	398,892,563
Restricted – reserved for revenue bond requirements	10,897,658	10,897,658
Unrestricted net assets	160,401,432	160,401,432
Total net assets	574,086,315	570,191,653
Total liabilities and net assets	777,886,815	773,992,153
Operating expenses before depreciation		
Maintenance	9,979,185	10,542,025
General administration	1,138,582	1,133,511
Income from operations before depreciation	35,775,193	35,217,424
Depreciation	15,998,257	14,748,795
Income from operations	19,776,936	20,468,629
Non-operating expense		
Interest expense – revenue bonds	9,197,432	9,381,019
Income before contributions	14,579,239	15,087,345
Increase in net assets	14,964,141	15,472,247

NOTE D – CASH

At June 30, 2006, 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 State Department of Finance 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 E – CAPITAL ASSETS

The changes in capital assets were as follows:

	Balance July 1, 2005 (as restated)	Additions	Deductions	Balance June 30, 2006
Nondepreciable assets				
Land and improvements	$236,356,084	$ –	$ –	$236,356,084
Depreciable assets				
Land improvements	124,274,005	2,351,574	927,373	125,698,206
Wharves	212,296,139	3,065,385	–	215,361,524
Other improvements	69,615,267	31,276	–	69,646,543
Buildings	47,129,471	6,645,525	–	53,774,996
Equipment	9,450,162	618,783	642,242	9,426,703
Total at cost	699,121,128	12,712,543	1,569,615	710,264,056
Less accumulated depreciation for:				
Land improvements	29,432,552	3,791,197	166,927	33,056,822
Wharves	72,176,165	6,061,688	–	78,237,853
Other improvements	23,014,422	2,211,142	–	25,225,564
Buildings	20,036,096	1,460,289	–	21,496,385
Equipment	6,895,850	462,403	543,742	6,814,511
Total accumulated depreciation	151,555,085	13,986,719	710,669	164,831,135
Construction in progress	33,269,320	44,325,353	11,974,038	65,620,635
	$580,835,363	$43,051,177	$12,832,984	$611,053,556

Depreciation expense was $13,986,719 for the fiscal year ended June 30, 2006.

NOTE F – LONG-TERM LIABILITIES

The changes in long-term liabilities were as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Current	Noncurrent
Accrued workers' compensation	$ 453,057	$ 51,047	$ 43,027	$ 461,077	$ 149,331	$ 311,746
Accrued vacation	2,379,978	1,028,895	1,323,510	2,085,363	589,583	1,495,780
Revenue bonds	189,890,000	–	9,025,000	180,865,000	9,435,000	171,430,000
General obligation bonds	111,281	–	111,281	–	–	–
	192,834,316	1,079,942	10,502,818	183,411,440	10,173,914	173,237,526
Less						
Unamortized discount	(1,911,460)	–	(141,417)	(1,770,043)	(139,821)	(1,630,222)
Unamortized premium	1,195,498	–	231,815	963,683	161,357	802,326
Unamortized deferred loss on refunding	(4,851,544)	–	(640,141)	(4,211,403)	(518,955)	(3,692,448)
	$187,266,810	$ 1,079,942	$ 9,953,075	$178,393,677	$ 9,676,495	$168,717,182

NOTE G – REVENUE BONDS PAYABLE

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

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

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.

NOTE G – REVENUE BONDS PAYABLE (continued)

The following is a summary of the Bonds issued and outstanding at June 30, 2006:

Year of issue	Final redemption date	Interest rates	Original amount of issue	Current: Principal due July 1, 2006	Current: Principal due January 1, 2007	Total Current	Noncurrent
1997	July 1, 2027	3.95 – 5.75%	$ 56,290,000	$ 510,000	$ –	$ 510,000	$ 52,405,000
2000	July 1, 2029	4.50 – 6.00%	79,405,000	2,255,000	–	2,255,000	63,890,000
2002	July 1, 2019	3.00 – 5.50%	24,420,000	2,100,000	–	2,100,000	16,190,000
2004	January 1, 2024	2.50 – 6.00%	52,030,000	–	4,570,000	4,570,000	38,945,000
			$212,145,000	$4,865,000	$4,570,000	9,435,000	171,430,000
Less:							
Unamortized discount						(139,821)	(1,630,222)
Unamortized premium						161,357	802,326
Unamortized deferred loss on refunding						(518,955)	(3,692,448)
						$ 8,937,581	$166,909,656

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

Fiscal year ending June 30,	Principal	Interest	Total
2007	$ 9,803,000	$ 9,462,000	$ 19,265,000
2008	9,500,000	8,982,000	18,482,000
2009	7,993,000	8,523,000	16,516,000
2010	8,425,000	8,139,000	16,564,000
2011	7,545,000	7,717,000	15,262,000
2012 – 2016	42,663,000	31,487,000	74,150,000
2017 – 2021	47,243,000	19,328,000	66,571,000
2022 – 2026	32,250,000	6,965,000	39,215,000
2027 – 2029	8,295,000	735,000	9,030,000
	$173,717,000	$101,338,000	$275,055,000

The above debt service requirements are set forth based upon funding requirements. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the above debt service requirements do not include debt service reserves as of June 30, 2006 which are held in anticipation of principal and interest payments due on July 1, 2006 and January 1, 2007.

NOTE H – HARBOR REVENUE BOND REQUIREMENTS

1. 1997 Certificate

a. Minimum Net Revenue Requirement

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

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

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

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

The harbor revenue bond debt service requirements, including minimum sinking fund payments during the current fiscal year, computed in accordance with Section 6.03 of the 1997 Certificate totaled $19,265,000. Net revenues of the Public Undertaking, as defined by the 1997 certificate, amounted to $65,158,943 or 3.38 times the minimum net revenue requirement for the fiscal year ended June 30, 2006.

b. Harbor Special Fund

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

(1) Harbor Interest Account

Equal monthly installments sufficient to pay for the interest next becoming due on the Bonds are required to be paid into this account. This requirement was met as of June 30, 2006.

(2) Harbor Principal Account

Commencing with the first business day of each fiscal year, equal monthly payments are required to be made to this account sufficient to redeem the Bonds scheduled for redemption on the following July 1 and January 1. This requirement was met as of June 30, 2006.

NOTE H – HARBOR REVENUE BOND REQUIREMENTS (continued)

1. 1997 Certificate (continued)

b. Harbor Special Fund (continued)

(3) Harbor Debt Service Reserve Account

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

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

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

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

NOTE H – HARBOR REVENUE BOND REQUIREMENTS (continued)

1. 1997 Certificate (continued)

   b. Harbor Special Fund (continued)

      (3) Harbor Debt Service Reserve Account (continued)

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

      (4) Harbor Reserve and Contingency Account

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

NOTE I – INTEREST COST

Total interest cost incurred for the fiscal year ended June 30, 2006 amounted to $10,751,311. Of this amount, $2,223,404 was capitalized as part of the construction cost of harbor facilities.

NOTE J – LEASING OPERATIONS

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

NOTE J – LEASING OPERATIONS (continued)

The following is a schedule of approximate future minimum lease rentals on noncancelable operating leases as of June 30, 2006:

	Amount
Fiscal year ending June 30,	
2007	$ 6,670,000
2008	6,436,000
2009	6,385,000
2010	6,216,000
2011	6,306,000
Thereafter	96,456,000
	$128,469,000

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

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

NOTE K – RETIREMENT BENEFITS

1. Employees' Retirement System

Substantially all eligible employees of the Harbors Division are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the ERS at City Financial Tower, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

NOTE K – RETIREMENT BENEFITS (continued)

1. Employees' Retirement System (continued)

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

2. Post-Retirement Health Care and Life Insurance Benefits

   In addition to providing pension benefits, the State provides certain health care and life insurance benefits to retired State employees. Contributions are financed on a pay-as-you-go basis. The Harbors Division's share of the expense for post-retirement health care and life insurance benefits for the fiscal year ended June 30, 2006 was approximately $632,000.

NOTE L – COMMITMENTS

1. Construction and Other Service Contracts

   The Harbors Division is committed under contracts awarded for construction and other services. These commitments amounted to approximately $57,023,000 at June 30, 2006.

2. Accumulated Sick Leave Pay

   Employees earn sick leave credits at the rate of 14 hours for each month of service depending on the employee's hire date. Unused sick leave may be accumulated without limitation and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, for public employees who retire or leave government service in good standing with sixty days or more of unused sick leave, the unused sick leave is converted to additional retirement service credit at the rate of one additional month of service for each 20 days of unused sick leave. Accumulated sick leave as of June 30, 2006 approximated $6,233,000.

3. 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.

NOTE L – COMMITMENTS (continued)

3. Deferred Compensation Plan (continued)

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 M – 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; workers' compensation and acts of terrorism. The State generally retains the first $250,000 per occurrence of property losses and the first $3 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $25 million ($10 million for earthquake, named hurricane, and flood) and the annual aggregate for general liability losses per occurrence is $7 million.

The State 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) or claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

NOTE N – CEDED LANDS

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

Amounts payable to OHA are treated as operating expenses of DOT's commercial harbors system. Assessments of $6,600,912 for the fiscal year ended June 30, 2006 are included as operating expenses in the statement of revenues, expenses and changes in net assets.

NOTE O – TRANSACTIONS WITH OTHER GOVERNMENT AGENCIES

The State assesses a surcharge of 5% for central service expenses on all receipts of the Harbors Division, after deducting any amounts pledged, charged or encumbered for the payment of bonds and interest during the fiscal year. The assessments amounted to $3,083,186 for the fiscal year ended June 30, 2006.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to $1,348,216 for the fiscal year ended June 30, 2006.

The Harbors Division incurred costs of $1,814,908 for fireboat operation services provided by the City and County of Honolulu during the fiscal year ended June 30, 2006.

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 year ended June 30, 2006 amounted to $116,283.

Act 178, Session Laws of Hawaii 2005, appropriated reimbursable general obligation bonds of $20.0 million each year, fiscal years 2006 and 2007, for harbor improvements needed to support the operations of Hawaii Superferry, Inc. (HSF). HSF plans to begin inter-island ferry service with its first ferry to Maui and Kauai from Honolulu in July, 2007 and to the island of Hawaii approximately 18 months later. The Harbors Division will be responsible for debt service payments on the bonds. The Harbors Division has executed a $37.5 million contract for the construction of barges and ramps. Expenditure of the balance of this appropriation is planned to finance other harbor upgrades needed to support the operations of HSF. As of June 30, 2006, approximately $7,101,000 has been expended under this appropriation and is reflected in the due to Department of Budget and Finance in the statement of net assets.

In April, 2005, the Governor's Office initiated the formation of the Hawaii Harbors Task Force to respond on a priority basis to the pressing demands for infrastructure improvements in Honolulu Harbor. The Aloha Tower Development Corporation was tasked to work in partnership with the Harbors Division and has been assigned the lead in implementation efforts to develop harbor infrastructure on a priority basis. This partnership is known as the Hawaii Harbors Project. ATDC is leading efforts to plan and execute major long term redevelopment projects such as the former Kapalama Military Reservation and various projects at Honolulu Harbor.

NOTE P – 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.

NOTE P – ALOHA TOWER COMPLEX DEVELOPMENT (continued)

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

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

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

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

Revenues for the fiscal year ended June 30, 2006 amounted to $98,322, and has been included in rental revenues. As of June 30, 2006, the amount due to the Harbors Division was $8,051,363.

NOTE Q – TRANSFER OF LAND TO OTHER STATE AGENCIES

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

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

NOTE Q – TRANSFER OF LAND TO OTHER STATE AGENCIES (continued)

As part of HCDA's development of the District, the western portion of the Kewalo Basin area is scheduled for redevelopment. The Harbors Division has long been negotiating with HCDA to resolve issues relating to the Harbors Division's continued operation and management of Kewalo Basin until HCDA was ready to proceed with its redevelopment plans. By an informal understanding, the Harbors Division retained all revenues generated from its management of Kewalo Basin and continued to manage maritime operations and provide for maintenance and capital improvements during this interim period. While fee title to Kewalo Basin was transferred to HCDA under Act 86, the law was silent as to the transfer of the improvements. Legal advice has been rendered that all improvements as well as the fee simple title transferred as a result of Act 86. The net assets as of July 1, 2005 has been restated to reflect the transfer of the Kewalo and Piers 1 and 2 related capital assets of approximately $1.4 million and $4.5 million respectively. Still to be resolved is whether HCDA will provide compensation to the Harbors Division for the land and land improvements transferred under Act 86 and subsequent improvements capitalized.

The Harbors Division and HCDA have agreed to terminate the Harbors Division's management of Kewalo Basin effective June 30, 2007. Planning between the two agencies are underway for HCDA's orderly transition to operate and manage Kewalo Basin. Similar to the Kewalo lands, the Harbors Division has been operating the harbor facilities and managing Piers 1 and 2.

NOTE R – KAPALAMA LAND DEVELOPMENT

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

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

NOTE R – KAPALAMA LAND DEVELOPMENT (continued)

The Harbors Division is also seeking the transfer of approximately 11.344 acres of ceded lands that were previously promised to the Airports Division near the KMR site to consolidate the lands needed for the future development. The resolution of this matter is dependent upon Airports Division's compliance with certain steps outlined in the legal advice rendered, based on a clarification from the FAA on the State's land ownership procedures and the FAA's requirement of receipt of fair market value on land disposal.

NOTE S – ARBITRAGE

The Harbors Division is required to annually calculate rebates to the U.S. treasury on the harbor revenue bonds issued from 1986. In accordance with the requirements of Section 148 of 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, 2006, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

NOTE T – CONTINGENCIES

1. Environmental Issues

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

NOTE T – CONTINGENCIES (continued)

2. Litigation

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

NOTE U – SUBSEQUENT EVENTS

In July 2006, the Harbors Division issued $96,570,000 in Bonds, Series A of 2006. Series A of 2006 Bonds will mature through the year 2031 at an average interest rate of 5.08%.

Due to the critical importance to preserve Piers 1 and 2 at Honolulu Harbor to support maritime needs, Act 165, SLH 2006, was enacted to remove this area from the jurisdiction of HCDA and convey authority to the Department of Transportation and the Foreign Trade Zone Division of the Department of Business, Economic Development and Tourism effective July 1, 2006.

In October 2006, the State of Hawaii experienced an earthquake measuring 6.5 on the Richter scale centered off the Big Island of Hawaii. Damages sustained by Kawaihae Harbor are under assessment to determine the extent of any repairs or maintenance that would be required. Emergency repairs have been done and the Harbor is open to operations by all major users with use restrictions at Piers 1 and 2A.

SUPPLEMENTARY INFORMATION

Schedule 1

State of Hawaii
Department of Transportation
Harbors Division

CASH AND CASH EQUIVALENTS OF THE PUBLIC UNDERTAKING

June 30, 2006

Unrestricted cash and cash equivalents	$ 104,535,902
Restricted cash and cash equivalents	
For construction	48,040,515
For revenue bond debt service payments	13,036,561
For security deposits	2,516,358
For revenue bond harbors reserve and contingency account	10,897,658
	74,491,092
	$ 179,026,994
With Director of Finance, State of Hawaii	$ 179,011,494
On hand	15,500
TOTAL	$ 179,026,994

State of Hawaii
Department of Transportation
Harbors Division

CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING

Year ended June 30, 2006

Project	Balance at July 1, 2005 (as restated)	Additions by source of funds: Harbor Special Fund	Harbor Revenue Bonds	Capitalized interest	Transfer out	Balance June 30, 2006
Statewide:						
Environmental Consultant for Commercial Harbors	$ -	$ 23,310	$ -	$ 589	$ -	$ 23,899
Various commercial harbor improvements	496,003	35,683	-	28,196	-	559,882
Screening Equipment for Neighbor Island Passenger Terminals	4,365	3,580	-	300	-	8,245
Maritime Workers Identification System	9,017	9,128	-	628	-	18,773
Security Surveillance System for Neighbor Island Passenger Terminals	18,633	6,116	-	1,010	-	25,759
Installation of Septic System at Harbor Agent's Office, Kalaeloa BP & Instal. Lift Station & Force Main at Port	46,902	24,236	-	2,919	-	74,057
Inter-Island Ferry System	103,448	835,575	-	27,435	-	966,458
Barges & Vehicle Ramp Systems for Inter-Island Ferry Service	2,631	9,276	9,248,213	233,593	-	9,493,713
Honolulu Harbor:						
Sand Island tunnel feasibility study	1,122,760	-	-	11,273	-	1,134,033
Tank Farm Demolition & Pipeline Removal Near Pier 32, Honolulu Harbor	-	-	23,665	598	-	24,263
Sand Island container yard reconstruction	2,229,015	12,250	-	112,875	-	2,354,140
Harbor planning	253,447	-	-	10,100	-	263,547
Domestic Commercial Fishing Village Subdivision Improv. Piers 36-38, Honolulu Hbr	-	17	-	-	17	-
Demolition of storage tanks	550,730	146,808	-	-	697,538	-
Pier 19 ferry and cruise passenger terminal	6,064,321	6,090	-	-	6,070,411	-
Environmental Risk Assessment Piers 36-38, Honolulu Harbor	-	(13,588)	-	(343)	-	(13,931)
Pier 2 cruise ship terminal	11,718,277	17,909,038	-	1,122,094	146,000	30,603,409
Bullrail installation	1,162,541	923	-	-	1,163,464	-
Environmental investigation near Pier 32	8,722	2,000	-	-	10,722	-
Dredge Ewa end of Pier 51A	635,887	(9,341)	-	-	626,546	-
Environmental Remediations Piers 36-38	-	37,587	-	-	37,587	-
Video monitoring system	85,764	214	-	3,628	-	89,606
Risk assessment for Pier 29	61,058	-	-	-	61,058	-
Keehi Industrial Park drainage improvements	297,091	681,611	-	10,390	989,092	-
Security surveillance system	556,729	18,386	-	-	575,115	-
Reconstruction of Pier 51B Container Yard	285,724	289,989	-	21,341	-	597,054
Construction of Mooring Bollards at Piers 19-21	61,494	46,752	-	4,186	-	112,432
Crash Barriers Gates for Container Terminal	7,205	6,913	-	529	-	14,647
Channel Barrier	14,610	2,581	-	784	-	17,975
Ph I Environmental Site Assessment of the Former Kapalama Military Reserv Area	53,144	32,356	-	2,997	-	88,497
Substructure Repairs at Pier 2	-	651,564	-	17,234	-	668,798
Installation of RPM system at Fort Armstrong	22,754	352,625	-	-	375,379	-
Subtotal carried forward	$ 25,872,272	$ 21,121,679	$ 9,271,878	$ 1,612,356	$ 10,752,929	$ 47,125,256

State of Hawaii
Department of Transportation
Harbors Division

CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING (continued)

Year ended June 30, 2006

Project	Balance at July 1, 2005 (as restated)	Additions by source of funds: Harbor Special Fund	Harbor Revenue Bonds	Capitalized interest	Transfer out	Balance June 30, 2006
Subtotal brought forward	$ 25,872,272	$ 21,121,679	$ 9,271,878	$ 1,612,356	$ 10,752,929	$ 47,125,256
Honolulu Harbor (continued):						
Perimeter Fencing Improvement at Honolulu & Kalaeloa BPT Harbors	5,969	2,630	-	360	-	8,959
Methane Mitigation, Pier 38, Lease Parcel 8	8,882	475,103	-	12,433	-	496,418
Construction of CBP Facilities and Misc Improvement for Pier 2 Cruise Terminal	91,460	56,955	-	5,940	-	154,355
Methane Mitigation Pier 38 Lease Parcel 9	1,829	5,099	-	218	-	7,146
Passenger gangway at Pier 2 Cruise Terminal	1,056	13,550	-	394	-	15,000
Extension of Pier 38 Fender System	4,531	10,471	-	487	-	15,489
Keehi Industrial Park Dust Mitigation	2,636	48,263	-	1,334	-	52,233
Construction Management & Inspection for Various Pier 2 Cruise Terminal Improv	1,640	529,835	-	14,099	-	545,574
Pier 29 Extension	3,615	13,778	-	526	-	17,919
Pier 1 lighting Improvements	460	176,857	-	4,488	-	181,805
Partial Shed Demolition, Pier 1	-	1,157	-	29	-	1,186
Replacement of Fort Street Security Barriers at Pier 11	1,030	3,599	-	142	-	4,771
Removal of Petroleum Contaminated Soil from Domestic Commercial Fishing Village	124	5,160	-	-	5,284	-
Condominium Property Regime, Piers 30-38	-	116,693	-	-	-	116,693
Methane Mitigation Piers 36-38, Lease Parcels 3, 4, 5 & 6	-	3,415	-	86	-	3,501
Kewalo Basin:						
Demolition of former GRG Enterprise	120,493	276,181	-	12,234	-	408,908
Kalaeloa Barbers Point Harbor:						
Modifications of Pier	804,250	320	-	35,584	-	840,154
Navigational Lighting along Northwestern Margin	-	8	-	-	8	-
Extend perimeter lighting to pier P-9	150,265	113,820	-	9,884	-	273,969
Installation of Septic System	794	-	-	30	-	824
Kahului Harbor:						
Pier 1-C Extension	-	3,047	-	77	-	3,124
Environmental assessment master plan	154,567	4,000	-	2,438	-	161,005
Pier 1c comfort station waterline and sewerline improvements	293,814	1,872,932	-	61,390	-	2,228,136
Upgrade perimeter fencing	307,403	22,414	-	15,421	-	345,238
Reconstruction of Puunene Container Yard	294,851	65,809	1,856,969	62,604	-	2,280,233
Construction of mooring dolphin at Pier 1c	10,368	953,298	-	10,227	973,893	-
Replacement of Piers 2 & 3 Bull rails	-	6,654	-	168	-	6,822
Subtotal carried forward	$ 28,132,309	$ 25,902,727	$ 11,128,847	$ 1,862,949	$ 11,732,114	$ 55,294,718

State of Hawaii
Department of Transportation
Harbors Division

CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING (continued)

Year ended June 30, 2006

		Additions by source of funds				
Project	Balance at July 1, 2005 (as restated)	Harbor Special Fund	Harbor Revenue Bonds	Capitalized interest	Transfer out	Balance June 30, 2006
Subtotal brought forward	$ 28,132,309	$ 25,902,727	$ 11,128,847	$ 1,862,949	$ 11,732,114	$ 55,294,718
Kaumalapau Harbor						
Breakwater Repair	2,282,612	700,121	-	130,667	-	3,113,400
Kaunakakai Harbor:						
Commuter Ferry System Improvements	283	100,000	-	2,539	-	102,822
Hilo Harbor:						
Pier 1 shed modifications	241,033	74	-	-	241,107	-
Pier 3 breasting dolphins and catwalks	479,111	27,238	2,149,085	75,965	-	2,731,399
Interisland Barge Terminal Facility	88,865	7,494	-	3,537	-	99,896
Geotechnical Engineering Study	279	-	-	-	-	279
Upgrade of Perimeter Fencing	-	861	-	-	-	861
Construction of Inter-island cargo terminal	12,494	60,677	-	2,134	-	75,305
Kawaihae Harbor:						
Modifications project	480,577	1,196	-	22,904	-	504,677
Bathymetric and Underwater Survey at Pier 1	-	437	-	11	-	448
Nawiliwili Harbor:						
Pavement Repairs at Pier 1	-	8	-	-	8	-
Environmental risk assessment	122,067	1,134	-	5,610	-	128,811
Pier 2 extension	914,661	8,806	-	41,593	-	965,060
Nawiliwili Harbor Channel Modifications Feasibility Study	230,903	486	-	11,363	-	242,752
Commercial Harbors 2020 Master Plan	189,341	-	-	9,155	-	198,496
Replacement of Pier 3 fendering system	91,675	2,011,931	-	54,831	-	2,158,437
Upgrade perimeter fencing	-	809	-	-	809	-
Port Allen:						
Installation of lift station and force main	3,110	18	-	146	-	3,274
	$ 33,269,320	$ 28,824,017	$ 13,277,932	$ 2,223,404	$ 11,974,038	$ 65,620,635

State of Hawaii
Department of Transportation
Harbors Division

REVENUE BONDS OF THE PUBLIC UNDERTAKING

June 30, 2006

	Final redemption date	Interest rate	Original amount of issue	Balance at June 30, 2006 Current	Noncurrent	Total
Issue of 1997	July 1, 2027	3.95 - 5.75%	$ 56,290,000	$ 510,000	$ 52,405,000	$ 52,915,000
Issue of 2000	July 1, 2029	4.50 - 6.00%	79,405,000	2,255,000	63,890,000	66,145,000
Issue of 2002	July 1, 2019	3.00 - 5.50%	24,420,000	2,100,000	16,190,000	18,290,000
Issue of 2004	January 1, 2024	2.50 - 6.00%	52,030,000	4,570,000	38,945,000	43,515,000
			$ 212,145,000	$ 9,435,000	$ 171,430,000	$ 180,865,000

Schedule 4

State of Hawaii
Department of Transportation
Harbors Division

INCOME FROM OPERATIONS BEFORE DEPRECIATION

Year ended June 30, 2006

		District										
		Oahu			Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Kewalo	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating revenues:												
Services:												
Wharfage	$ -	$29,853,374	$1,487,136	$ -	$1,895,215	$2,270,568	$4,234,181	$ 145,372	$ -	$1,569,173	$ -	$41,455,019
Passenger debark/embark	-	1,743,713	-	-	1,128,091	-	558,123	-	-	1,069,893	-	4,499,820
Dockage	-	3,329,174	609,372	-	379,380	54,438	617,338	42,654	-	490,800	10,632	5,533,788
Demurrage	-	1,080,617	-	-	223,397	241,089	182,962	-	-	28,564	-	1,756,629
Port entry	-	717,496	108,924	344	114,606	39,388	122,894	13,581	-	88,356	2,750	1,208,339
Mooring charges	-	312,381	-	684,575	27,400	36	184	1,893	-	112	319,848	1,346,429
Cleaning wharves	-	179,114	-	2,224	259	-	7,946	-	-	22,280	2,787	214,610
Other	-	240,520	6,810	3,392	1,398	9,400	1,916	477	-	2,949	3,002	269,864
Total services	-	37,456,389	2,212,242	690,535	3,769,746	2,614,919	5,725,544	203,977	-	3,272,127	339,019	56,284,498
Rentals:												
Wharf space and land	-	16,257,722	212,082	407,039	113,867	150,039	223,296	13,600	300	363,029	166,379	17,907,353
Storage	-	2,564,173	45,352	5,535	126,109	196,769	258,972	1,938	-	307,896	14,398	3,521,142
Automobile parking	-	905,839	-	45,715	92,730	5,200	68,631	-	-	74,975	14,512	1,207,602
Pipelines	-	438,180	660,594	-	414,601	35,987	524,101	12,927	-	104,553	88,822	2,279,765
Total rentals	-	20,165,914	918,028	458,289	747,307	387,995	1,075,000	28,465	300	850,453	284,111	24,915,862
Others:												
Sale of utilities	-	644,781	138,499	28,461	55,367	7,046	150,986	-	-	44,054	300	1,069,494
Miscellaneous	-	821,017	4,904	22,639	4,135	1,550	59,520	19,580	-	10,302	3,969	947,616
Total others	-	1,465,798	143,403	51,100	59,502	8,596	210,506	19,580	-	54,356	4,269	2,017,110
Total operating revenues	-	59,088,101	3,273,673	1,199,924	4,576,555	3,011,510	7,011,050	252,022	300	4,176,936	627,399	83,217,470
Operating expenses before depreciation:												
Personal services	3,938,072	5,558,515	90,839	105,746	650,125	48,899	693,009	59,673	-	656,945	60,765	11,862,588
Harbor operations	874	8,420,852	440,051	714,711	272,158	764,260	410,526	82,404	-	422,178	21,186	11,549,200
Maintenance	756,588	2,798,306	134,256	86,224	1,363,978	356,303	143,627	363,989	(837)	626,965	125,769	6,755,168
State of Hawaii, surcharge for central service expenses	3,083,186	-	-	-	-	-	-	-	-	-	-	3,083,186
Fireboat operations	-	1,814,908	-	-	-	-	-	-	-	-	-	1,814,908
General administration	1,273,769	425,734	978	6,437	47,014	2,814	13,790	68	-	36,745	2,923	1,810,272
Department of Transportation, general administration expenses	1,348,216	-	-	-	-	-	-	-	-	-	-	1,348,216
Operating expenses	10,400,705	19,018,315	666,124	913,118	2,333,275	1,172,276	1,260,952	506,134	(837)	1,742,833	210,643	38,223,538
Allocation of statewide expenses (Note 1)	(10,400,705)	7,384,963	409,151	149,969	571,988	376,385	876,257	31,498	37	522,043	78,414	-
Total operating expenses	-	26,403,278	1,075,275	1,063,087	2,905,263	1,548,661	2,137,209	537,632	(800)	2,264,876	289,057	38,223,538
Income from operations before depreciation	$ -	$32,684,823	$2,198,398	$ 136,837	$1,671,292	$1,462,849	$4,873,841	$ (285,610)	$ 1,100	$1,912,060	$ 338,342	$44,993,932

NOTES:

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

Schedule 5

State of Hawaii
Department of Transportation
Harbors Division

HARBOR REVENUE BONDS 1997 CERTIFICATE - MINIMUM NET REVENUE REQUIREMENT OF THE PUBLIC UNDERTAKING

Year ended June 30, 2006

Net revenues, as defined by the 1997 Certificate:		
Income from operations before depreciation		$ 44,993,932
Add:		
Interest income	$ 6,184,167	
State of Hawaii, surcharge for central service expenses	3,083,186	
Cash available in the harbor reserve and contingency account	10,897,658	20,165,011
		$ 65,158,943
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments for the immediately ensuing 12 months		$ 19,265,000
Ratio of net revenues to harbor revenue bond debt service requirements		3.38

State of Hawaii
Department of Transportation
Harbors Division

ACCOUNTS RECEIVABLE AGING

June 30, 2006

	Total	Current	30 Days	60 Days	90 Days
Accounts receivable	$ 9,683,372	$ 6,699,992	$235,711	$161,577	$ 2,586,092