



KOBAYASHI, KANETOKU, DOI, LUM & YASUDA CPAs LLC

**HARBORS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**
(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplemental Information

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

Submitted by
THE AUDITOR
STATE OF HAWAII

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Table of Contents

Independent Auditors' Report.....	1
Management's Discussion and Analysis	3
Financial Statements:	
Statements of Net Assets	16
Statements of Revenues, Expenses, and Changes in Net Assets	17
Statements of Cash Flows.....	18
Notes to Financial Statements.....	20
Supplemental Information:	
Schedule 1 – Cash and Cash Equivalents of the Public Undertaking.....	50
Schedule 2 – Construction in Progress of the Public Undertaking.....	51
Schedule 3 – Revenue Bonds of the Public Undertaking	64
Schedule 4 – Income from Operations Before Depreciation	65
Schedule 5 – Harbor Revenue Bonds 1997 Certificate – Minimum Net Revenue Requirement of the Public Undertaking	66
Schedule 6 – Accounts Receivable Aging	67



Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying statements of net assets of the Harbors Division, Department of Transportation, State of Hawaii (the Harbors Division), an enterprise fund of the State of Hawaii, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Harbors Division's management. 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 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 audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements of the Harbors Division are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Hawaii that are 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15 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 taken as a whole. 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. The supplementary information has been subjected to the auditing procedures applied in our 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.

Kobayashi, Kaitoko, Aoi, Lano & Yamada CPAs LLC

Honolulu, Hawaii
January 31, 2012

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2011 and 2010

The following Management's Discussion and Analysis of the Harbors Division, Department of Transportation, State of Hawaii (the Harbors Division), an enterprise fund of the State of Hawaii, presents the reader with an introduction and overview of the Harbors Division's financial performance for the fiscal years ended June 30, 2011 and 2010. 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, State of Hawaii (DOT), is authorized to impose and collect rates and charges for the use of the harbors system and its 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.

Using the Financial Statements

The Harbors Division is accounted for as a proprietary fund and utilizes the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type, which 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 financial report includes three financial statements; the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Financial Highlights

- The Harbors Division's net assets at June 30, 2011 and 2010 amounted to \$647.9 million and \$627.0 million, respectively. Net assets increased by \$20.9 million in fiscal year 2011, an increase of 3.3%. Net assets increased by \$18.8 million in fiscal year 2010, an increase of 3.1%.
- Operating income amounted to \$28.0 million in fiscal year 2011, an increase of \$9.8 million or 54.2% as compared to 2010. Operating income amounted to \$18.1 million in fiscal year 2010, an increase of \$11.7 million or 181.0% as compared to 2009.

A summary of operations and changes in net assets for the fiscal years ended June 30, 2011, 2010, and 2009 follows:

Table 1
Condensed Statements of Revenues,
Expenses, and Changes in Net Assets
(In Thousands)

	Year Ended June 30			2011 – 2010		2010 – 2009	
	2011	2010	2009	Increase (decrease)	% Change	Increase (decrease)	% Change
Operating revenues	\$ 85,920	\$ 73,339	\$ 74,612	\$ 12,581	17.2%	\$ (1,273)	(1.7)%
Nonoperating revenues	2,098	816	6,284	1,282	157.1	(5,468)	(87.0)
Total revenues	<u>88,018</u>	<u>74,155</u>	<u>80,896</u>	<u>13,863</u>	18.7	<u>(6,741)</u>	(8.3)
Depreciation and amortization	18,362	16,068	17,929	2,294	14.3	(1,861)	(10.4)
Other operating expenses	39,567	39,123	50,224	444	1.1	(11,101)	(22.1)
Nonoperating expenses	22,427	13,100	12,581	9,327	71.2	519	4.1
Total expenses	<u>80,356</u>	<u>68,291</u>	<u>80,734</u>	<u>12,065</u>	17.7	<u>(12,443)</u>	(15.4)
Net increase (decrease) in the fair value of amounts held in State Treasury	<u>3,792</u>	<u>9,052</u>	<u>(7,714)</u>	<u>(5,260)</u>	(58.1)	<u>16,766</u>	217.3
Income (loss) before capital contributions, extraordinary loss, and transfers	11,454	14,916	(7,552)	(3,462)	(23.2)	22,468	297.5
Capital contributions	9,426	3,865	22,714	5,561	143.9	(18,849)	(83.0)
Extraordinary loss	–	–	(41,354)	–	–	41,354	100.0
Transfer of capital assets	–	–	(2,524)	–	–	2,524	100.0
Increase (decrease) in net assets	<u>\$ 20,880</u>	<u>\$ 18,781</u>	<u>\$ (28,716)</u>	<u>\$ 2,099</u>	11.2%	<u>\$ 47,497</u>	165.4%

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Operating Revenues

Total operating revenues for fiscal year 2011 were \$85.9 million compared to \$73.3 million for fiscal year 2010. Operating revenues consist primarily of service revenues and rental revenues, which accounted for 68.3% and 29.5%, respectively, in fiscal year 2011, and 65.4% and 32.5%, respectively, in fiscal year 2010, of the Harbors Division's total operating revenues.

Service Revenues

Service revenues are directly related to cargo and ship operations. Service revenues include wharfage, passenger fees, and other ship related fees. Service revenues in fiscal years 2011 and 2010 were \$58.7 million and \$48.0 million, respectively.

Service revenues for fiscal year 2011 increased \$10.7 million or 22.3% as compared to fiscal year 2010. Wharfage revenue from cargo movements increased by \$10.2 million from \$37.8 million in fiscal year 2010 to \$48.0 million in fiscal year 2011 due primarily to increases in tariff rates that took effect on March 1, 2010 and on July 1, 2010 of 10% and 20%, respectively that were applied to the rates then in effect. In addition, dockage fees increased by \$325,000, from \$4.7 million in fiscal year 2010 to \$5.0 million in fiscal year 2011 and passenger fees increased by \$175,000 from \$2.6 million in fiscal year 2010 to \$2.8 million in fiscal year 2011.

Service revenues for fiscal year 2010 decreased \$344,000 or 0.7% as compared to fiscal year 2009. Wharfage revenue from cargo movements increased by \$293,000, from \$37.5 million in fiscal year 2009 to \$37.8 million in fiscal year 2010 due primarily to the increase in tariff rates that took effect on March 1, 2010. Mooring fees decreased by \$414,000, from \$1.1 million in fiscal year 2009 to \$640,000 in fiscal year 2010. The Harbors earned no mooring fees from Kewalo Basin during fiscal year 2010 as the management of that facility was transferred to the Hawaii Community Development Authority (HCDA) effective March 1, 2009. In addition, dockage fees decreased by \$185,000, from \$4.9 million in fiscal year 2009 to \$4.7 million in fiscal year 2010.

During fiscal 2011, approximately 1.20 million passengers (inbound and outbound) passed through the harbors as compared to 1.13 million passengers in fiscal year 2010 and 1.15 million passengers in fiscal year 2009.

Passenger fee revenue increased by \$175,000 or 6.7%, from \$2.6 million in 2010 to \$2.8 million in fiscal year 2011, due primarily to an increase of approximately 83,000 passengers aboard foreign flagged vessels that made port calls to Hawaii harbors facilities, partially offset by a decrease in passengers in transit of approximately 17,000 in fiscal year 2011.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Passenger fee revenue decreased by \$68,000 or 2.6%, from \$2.7 million in fiscal year 2009 to \$2.6 million in 2010, due primarily to a decrease of approximately 43,400 passengers aboard foreign flagged vessels that made port calls to Hawaii harbors facilities, partially offset by an increase in passengers in transit of approximately 25,000 in fiscal year 2010.

During fiscal years 2011 and 2010, passengers on U.S. flagged vessels taking a continuous trip whose point of origin and termination is a State of Hawaii (the 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. Passenger counts for fiscal year 2011 increased by approximately 5.9% while in 2010 passenger counts decreased by approximately 1.0% and revenues decreased by 2.6%. Approximately 29% of the fiscal year 2011 passengers were in-transit while 26% of the fiscal year 2010 passengers were in-transit.

Rental Revenues

Rental revenues in fiscal years 2011 and 2010 were \$25.4 million and \$23.9 million, respectively. The increase in rental revenue of \$1.5 million or 6.3% from fiscal year 2010 to fiscal year 2011 was due primarily to the increase in storage fees of approximately \$734,000, and an increase in rental fees of approximately \$742,000 for the use of State pipeline facilities to deliver petroleum products such as diesel, gasoline, and jet fuel due primarily to increases in fee rates that took effect in March 2010 and in July 2010. Fiscal 2011 land rents increased nominally as increases from new rental activity was offset by several lease terminations, one of which caused a \$227,000 reduction in lease rent revenues.

Rental revenues in fiscal years 2010 and 2009 were \$23.9 million and \$24.3 million, respectively. The decrease in rental revenue of \$476,000 or .2% from fiscal year 2009 to fiscal year 2010 was due primarily to the decrease of approximately \$578,000 in land rents and parking fees resulting from the cancellation of several land leases during the year, a decrease of land rents of approximately \$288,000 due to the transfer of leases and permits as of March 1, 2009 to the Hawaii Community Development Authority for parcels located at Kewalo Basin, which were partially offset by an increase in storage fees of approximately \$302,000, and an increase in rental fees of approximately \$116,000 for the use of State pipeline facilities to deliver petroleum products such as diesel, gasoline, and jet fuel.

Operating Expenses

Operating expenses, excluding depreciation and amortization, for fiscal years 2011 and 2010 amounted to \$39.6 million and \$39.1 million, respectively. The increase in operating expenses from fiscal year 2010 to fiscal year 2011 of \$443,000 or 1.1% was due primarily to increases in

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

harbor operations costs of approximately \$1.1 million, an increase of \$451,000 in the State of Hawaii central services surcharge, offset by decreases in maintenance expenses of approximately \$835,000, decreases in personal services costs of approximately \$111,000 and decreases in fireboat operations expense of approximately \$257,000.

Operating expenses, excluding depreciation, for fiscal years 2010 and 2009 amounted to \$39.1 million, and \$50.2 million, respectively. The decrease in operating expenses from fiscal year 2010 to fiscal year 2009 of \$11.1 million or 22.1% was due primarily to decreases in harbor maintenance expenses of approximately \$7.4 million, decreases in harbor operations expenses of approximately \$1.5 million, decreases in personnel services costs of approximately \$1.1 million, and decreases in fireboat operations expense of approximately \$664,000.

Harbor maintenance expenses for fiscal year 2011 decreased by \$835,000 as compared to fiscal year 2010 due primarily to a \$732,000 decrease in special maintenance costs expended for maintenance projects that did not extend the service life of harbor assets. Most of the special maintenance project expenditures for fiscal year 2011 extended the service life of the related harbor assets and were capitalized. In fiscal year 2010, special maintenance expenditures incurred for several projects carried-over from prior years were charged to operations. Harbor maintenance expenses for fiscal year 2010 decreased by \$7.4 million as compared to fiscal year 2009 due primarily to decreases in special maintenance costs of \$6.8 million. Most of the special maintenance project expenditures for fiscal year 2010 extended the service life of the related harbor assets and were capitalized. In fiscal year 2009, the special maintenance expenditures incurred were charged to operations.

Harbor operations expenses for fiscal year 2011 increased by approximately \$1.1 million as compared to fiscal year 2010 due primarily to an increase in ceded land assessments of approximately \$1.6 million, which resulted from increased revenues earned from the land parcels designated as ceded lands. In fiscal year 2010, harbor operations expenses decreased by \$1.5 million as compared to fiscal year 2009 due primarily to a decrease in various operating expenses of \$851,000, including a \$562,000 decrease in electricity expense. In addition, harbor security expenses decreased by \$701,000 and ceded land assessments decreased by \$174,000, which resulted from decreased revenues earned from the land parcels designated as ceded lands.

Fireboat operations expenses for fiscal year 2011 decreased by \$257,000 as compared to fiscal year 2010 primarily because of reduced staffing costs incurred for the first six months of fiscal year 2011. In fiscal year 2010, fireboat operations expenses decreased by \$664,000 as compared to fiscal year 2009 primarily because no vessel dry-dock expenditures were incurred during fiscal year 2010.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Personnel services costs for fiscal year 2011 decreased by approximately \$111,000 as compared to fiscal year 2010 due primarily to a decrease in workers compensation expense of \$52,000. In fiscal year 2010, personnel services costs decreased by approximately \$1.1 million as compared to fiscal year 2009 due primarily to a decrease in salaries and wages of \$1.4 million, resulting from the implementation of furlough plans for executive branch employees during the second quarter of fiscal year 2010 and the deferral of filling vacant positions. This was partially offset by an increase in workers compensation expense of \$332,000 attributable to an increase in the amount of claims in fiscal year 2010.

Central services costs for fiscal year 2011 increased by \$451,000 as compared to fiscal year 2010 due to expected higher earnings resulting from the tariff increases implemented March 1, 2010 and July 1, 2010 against which the 5% State assessment is applied. In fiscal year 2010, central services costs decreased by \$217,000 as compared to fiscal year 2009 due to lowered earnings from interest-bearing investments against which the 5% State assessment was applied.

A summary of the Harbors Division's net assets at June 30, 2011, 2010, and 2009 are shown below:

Table 2
Condensed Statements of Net Assets
(In Thousands)

	As of June 30			2011 – 2010		2010 – 2009	
	2011	2010	2009	Increase (decrease)	% Change	Increase (decrease)	% Change
Current and other assets	\$ 423,059	\$ 246,966	\$ 240,743	\$ 176,093	71.3%	\$ 6,223	2.6%
Capital assets	689,438	677,813	674,352	11,625	1.7	3,461	0.5
Total assets	1,112,497	924,779	915,095	187,718	20.3	9,684	1.1
Long-term liabilities	415,813	261,475	271,708	154,338	59.0	(10,233)	(3.8)
Current liabilities	48,768	36,268	35,132	12,500	34.5	1,136	3.2
Total liabilities	464,581	297,743	306,840	166,838	56.0	(9,097)	(3.0)
Net assets:							
Invested in capital assets, net of related debt	500,342	508,047	493,877	(7,705)	(1.5)	14,170	2.9
Restricted	81,301	70,279	69,905	11,022	15.7	374	0.5
Unrestricted	66,273	48,710	44,473	17,563	36.1	4,237	9.5
	\$ 647,916	\$ 627,036	\$ 608,255	\$ 20,880	3.3%	\$ 18,781	3.1%

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Loan to State of Hawaii

The State Director of Finance informed the Acting Comptroller of the Department of Accounting and General Services that unspent Harbor Revenue Bond proceeds included in the State of Hawaii's Bond Fund in the amount of \$186.2 million were used as a temporary non-interest bearing loan on June 30, 2011 to cover the State of Hawaii's (the State) general obligation bond project expenditures in FY 2011. The State Director of Finance advised the Harbors Division that the State recorded a liability to the Harbors Division as of June 30, 2011 to account for this transaction. As of December 7, 2011, the State completed a sale of \$800 million in general obligation bonds and used a portion of the bond proceeds to repay the entire temporary loan from the Harbors Division. Accordingly, this temporary loan to the State is presented as a current restricted asset in the accompanying statement of net assets as of June 30, 2011.

The non-interest bearing loan of unspent Harbor Revenue Bond proceeds to cover the State's general obligation bond project expenditures is permitted under Section 36-24, Hawaii Revised Statutes and is authorized under the Certificate of the Director of Transportation Providing for the Issuance of State of Harbor System Revenue Bonds and did not affect the exclusion of the interest from gross income for federal income tax purposes.

This \$186.2 million loan to the State had the effect of reducing the Harbors Division cash and cash equivalents balance to \$216.8 million as it reduced the balance of unspent Harbor Revenue Bond proceeds from \$191.0 million to \$4.8 million as of June 30, 2011.

Net Assets

The largest portion of the Harbors Division's net assets (77.2% and 81.0% at June 30, 2011 and 2010, respectively) 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 restricted portion of the Harbors Division's net assets (12.6% and 11.2% at June 30, 2011 and 2010, respectively) represents bond reserve funds that are subject to external restrictions on how they may be used.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

The unrestricted portion of the Harbors Division's net assets (10.2% and 7.8% at June 30, 2011 and 2010, respectively, may be used to meet any of the Harbors Division's ongoing operations or to fund capital improvement projects.

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. Net assets or the amount of total assets that exceeds liabilities amounted to \$647.9 at June 30, 2011, an increase in net assets of \$20.9 million or 3.3% from 2010. Net assets or the amount of total assets that exceeds liabilities amounted to \$627.0 million at June 30, 2010, an increase in net assets of \$18.8 million or 3.1% from 2009.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011 and 2010, the Harbors Division had \$689.4 million and \$677.8 million, respectively invested in capital assets as shown in Table 3. There was a net increase (additions, deductions, and depreciation) of \$11.6 million in 2011 from the prior year, and a net increase in 2010 of \$3.5 million from 2009.

Table 3
Capital Assets
(In Thousands)

	As of June 30			2011 – 2010		2010 – 2009	
	2011	2010	2009	Increase (decrease)	% Change	Increase (decrease)	% Change
Land and land improvements	\$ 460,296	\$ 450,945	\$ 419,081	\$ 9,351	2.1%	\$ 31,864	7.6%
Wharves	258,792	258,679	226,323	113	0.0	32,356	14.3
Other improvements	70,057	68,900	68,122	1,157	1.7	778	1.1
Buildings	84,029	87,491	84,324	(3,462)	(4.0)	3,167	3.8
Equipment	17,318	16,026	14,865	1,292	8.1	1,161	7.8
Total at cost	890,492	882,041	812,715	8,451	1.0	69,326	8.5
Less accumulated depreciation	(243,756)	(226,979)	(210,917)	16,777	7.4	16,062	7.6
Subtotal	646,736	655,062	601,798	(8,326)	(1.3)	53,264	8.9
Construction in progress	42,702	22,751	72,554	19,951	87.7	(49,803)	(68.6)
Total capital assets, net	\$ 689,438	\$ 677,813	\$ 674,352	\$ 11,625	1.7%	\$ 3,461	0.5%

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2011, included the following:

- \$1.5 million Port of Honolulu Passenger/Cargo Ship Facilities Improvements for Enhanced Harbor Security,
- \$801,000 Air Conditioning Repairs at Honolulu Harbor Administration Building,
- \$611,000 Methane Mitigation Piers 36-38, Lease Parcels 4 and 5, Domestic Commercial Fishing Village Honolulu Harbor, Oahu
- \$458,000 Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2010, included the following:

- \$27.6 million Reconstruction of Piers 52 & 53 Sand Island Container Yard, Honolulu Harbor, Oahu
- \$24.6 million Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu
- \$6.9 million Segmented Pier 3 Improvements, Nawiliwili Harbor, Kauai
- \$3.8 million Construction of Miscellaneous Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- \$3.3 million Container Yard Improvements and Shed Demolition for Pier 2A, Kawaihae Harbor, Hawaii
- \$1.9 million Pier 1 Makai Comfort Station and Waterline Improvements, Kahului Harbor, Maui
- \$826,000 Statewide Maritime Workers Identification and Credentialing System

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

In addition to those capital asset additions, the Harbors Division is currently in the process of constructing the following projects statewide:

- \$24.2 million Construction of Pier 29 Container Yard, Honolulu Harbor, Oahu
- \$1.1 million Construction Management and Inspections of Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- \$1.5 million Structural Repairs Phase 1 at Piers 9, 10 and 11, Honolulu Harbor, Oahu
- \$1.0 million Various Statewide Harbor Security Improvements
- \$908,000 Statewide Planning and Development of State Commercial Harbors System
- \$1.1 million Perimeter Fencing Improvements at Honolulu Harbors and at Kalaeloa Barbers Point Harbor, Oahu

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

- \$37.0 million Design and Construction of Pier 4 Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"
- \$29.9 million Construction of Improvements at Piers 12 to 15, Piers 23 to 28, Pier 35 and at the Former Kapalama Military Reservation, Oahu under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"
- \$24.8 million Construction of Building Improvements of Pier 35 at the Former Kapalama Military Reservation, Oahu under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"
- \$15.4 million Land Acquisition and Design of Improvements at Kahului Harbor, Maui Oahu under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"
- \$9.3 million Construction and Design of Pier 2 Terminal, Kawaihae Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

- \$8.6 million Design and Construction of Road Improvements for Pier 4 Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to “New Day Work Projects”
- \$6.2 million Reconstruction of Pier 2 Fendering System, Nawiliwili Harbor, Kauai
- \$5.0 million Construction of Building Improvements of Pier 35 at the Former Kapalama Military Reservation, Oahu under the Harbors Modernization Program, which has been renamed to “New Day Work Projects”
- \$4.2 million Commuter Ferry System at Kaunakakai Harbor, Molokai
- \$3.1 million Reconstruction and Improvement of Hana Harbor, Maui
- \$1.7 million Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu
- \$1.2 million Repair Piles and Domestic Waterline at Piers 24 to 26 at Honolulu Harbor, Oahu
- \$.5 million Design for Pier 4 Fencing and Gate Kawaihae Harbor, Hawaii Oahu under the Harbors Modernization Program, which has been renamed to “New Day Work Projects”
- \$.4 million Development Plan of Kawaihae Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to “New Day Work Projects”

The Container Yard Improvements and Shed Demolition for Pier 2A located at Kawaihae Harbor, Hawaii was funded by the U.S. Department of Transportation Maritime Administration (MARAD) in its administration of the Hawaii Port Infrastructure Expansion Program (Program). This Program provides the Harbors Division access to Federal funding and expertise for the development of harbor infrastructure improvements at Hawaii's commercial harbors. This capital improvement project amounting to \$3.3 million was completed and contributed to the Harbors Division during fiscal year 2010.

The Harbors Division is committed under contracts awarded for capital improvement projects totaling approximately \$61.6 million as of June 30, 2011.

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

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Indebtedness

Harbors System Revenue Bonds and Reimbursable General Obligation Bonds

Harbor system revenue bonds have been issued pursuant to the *Certificate of the Director of Transportation Providing for the Issuance of 1997 State of Hawaii Harbor Revenue Bonds* (the 1997 Certificate) and are collateralized by a charge and lien on the Harbors Division's revenues. The proceeds from these bonds are used for harbor and waterfront improvements. As of June 30, 2011 and 2010, outstanding harbor system revenue bonds amounted to \$383.8 million and \$232.3 million, respectively.

The Harbors Division issued \$164.3 million of Series A of 2010 Revenue Bonds and \$37.1 million of Series B of 2010 Revenue Bonds in November 2010. The Series B of 2010 Revenue Bonds were used to advance refund a portion of the outstanding Series A of 2000 Revenue Bonds. There were no harbor system revenue bonds issued during fiscal year 2010.

Reimbursable general obligation bonds are general obligations of the State, but since the proceeds were used to finance the harbor and waterfront improvements, the Harbors Division is required to reimburse the State's general fund for the payment of principal and interest on such bonds. As of June 30, 2011 and 2010, outstanding reimbursable general obligation bonds amounted to \$36.2 million and \$37.4 million, respectively. There have been no issuances of reimbursable general obligation bonds to finance the harbor and waterfront improvements during fiscal years 2011 and 2010.

Additional information regarding the Harbors Division's indebtedness can be found in Notes 5, 6, 7, and 8.

Credit Rating and Bond Insurance

All harbor system revenue bonds issued since 1997 through June 30, 2010 have been issued with bond insurance. A new reserve policy replaced all previously issued surety bonds and the portion of the reserve requirement allocable to the Series B of 2010 Revenue Bonds. The Series A of 2010 Revenue Bonds are secured by a cash deposit of \$11.5 million. As of June 30, 2011, the underlying ratings for harbor system revenue bonds were as follows:

- Standard and Poor's A+
- Moody's Investors Service A2
- Fitch IBCA, Inc. A+

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Ratings made by Standard and Poor's (S&P), Moody's Investors Service (Moody's) and Fitch IBCA, Inc. (Fitch) 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 Certificate.

The Harbors Division coverage ratio as of June 30, 2011 was 2.70 under the 1997 Certificate as compared to the ratio of 2.07 as of June 30, 2010.

Request for Information

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Statements of Net Assets
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>
Assets			Liabilities		
Current assets:			Current liabilities (payable from current assets):		
Cash and cash equivalents <i>(Note 3)</i>	\$ 109,556,537	\$ 82,808,160	Accounts payable <i>(Note 18)</i>	\$ 7,825,304	\$ 7,150,241
Receivables, less allowance for doubtful accounts of \$3,215,100 in 2011 and \$6,136,600 in 2010	7,415,786	5,804,843	Accrued workers' compensation <i>(Notes 5 and 12)</i>	190,742	166,477
Notes receivable, less allowance for doubtful accounts of \$7,786,700 in 2011 and \$7,787,200 in 2010 <i>(Note 15)</i>	-	-	Contracts payable, including retainages <i>(Note 18)</i>	1,004,693	2,370,698
Interest receivable	525,818	1,891,687	Accrued vacation <i>(Note 5)</i>	574,065	516,901
Due from the Federal Government	6,215,138	464,730	Due to Department of Budget and Finance	3,326,531	3,967,594
Due from other State agencies	359,681	282,361		<u>12,921,335</u>	<u>14,171,911</u>
Other receivables	15,769	12,104			
Materials and supplies, at cost	249,716	245,753			
Prepaid insurance and others	824,814	24,083			
	<u>125,163,259</u>	<u>91,533,721</u>	Current liabilities (payable from restricted assets):		
Restricted assets:			Contracts payable, including retainages	4,340,024	1,398,746
Cash and cash equivalents <i>(Notes 3, 6, and 7)</i>	29,289,844	17,174,218	Revenue bonds payable, current maturities <i>(Notes 5, 6, and 7)</i>	7,670,698	10,855,715
Loan to State of Hawaii <i>(Note 3)</i>	186,192,996	-	General obligation bonds payable, current maturities <i>(Notes 5 and 8)</i>	1,609,315	1,140,760
	<u>215,482,840</u>	<u>17,174,218</u>	Accrued interest payable-Revenue Bonds	10,019,811	6,179,218
Total current assets	<u>340,646,099</u>	<u>108,707,939</u>	Accrued interest payable-Airports Division <i>(Note 16)</i>	1,398,210	-
			Due to the Airports Division <i>(Note 16)</i>	8,190,530	-
Noncurrent assets:			Security deposits	2,618,460	2,521,509
Cash and cash equivalents-restricted <i>(Notes 3 and 7)</i>	77,992,050	134,863,167		<u>35,847,048</u>	<u>22,095,948</u>
			Total current liabilities	<u>48,768,383</u>	<u>36,267,859</u>
Capital assets <i>(Notes 4, 9, and 16)</i> :					
Nondepreciable facilities:			Long-term liabilities:		
Land	182,130,600	173,940,070	Accrued workers' compensation <i>(Notes 5 and 12)</i>	679,888	504,574
Land improvements	76,086,739	76,086,739	Other postretirement benefits payable <i>(Notes 5 and 11)</i>	6,288,888	4,718,518
Other improvements	66,908	66,908	Long-term debt, less current maturities:		
	<u>258,284,247</u>	<u>250,093,717</u>	General obligation bonds payable <i>(Notes 5 and 8)</i>	34,611,954	36,221,269
Depreciable facilities:			Revenue bonds payable, net <i>(Notes 5, 6, and 7)</i>	372,432,886	218,293,792
Land improvements	202,011,553	200,850,978	Accrued vacation <i>(Note 5)</i>	1,799,085	1,737,356
Wharves	258,791,742	258,678,542	Total long-term liabilities	<u>415,812,701</u>	<u>261,475,509</u>
Other improvements	70,056,974	68,899,753	Total liabilities	<u>464,581,084</u>	<u>297,743,368</u>
Buildings	84,029,127	87,490,695			
Equipment	17,318,065	16,026,385			
	<u>632,207,461</u>	<u>631,946,353</u>			
Less accumulated depreciation	(243,755,831)	(226,978,454)			
	<u>388,451,630</u>	<u>404,967,899</u>			
Construction in progress	42,702,305	22,751,287			
Total capital assets, net	<u>689,438,182</u>	<u>677,812,903</u>	Net assets		
Unamortized bond issue costs	3,868,171	2,705,111	Invested in capital assets, net of related debt	500,342,002	508,047,212
Other assets	552,392	690,490	Restricted-revenue bond requirements	22,352,691	10,897,658
	<u>771,850,795</u>	<u>816,071,671</u>	Restricted-for capital projects	58,948,076	59,381,611
Total noncurrent assets	<u>771,850,795</u>	<u>816,071,671</u>	Unrestricted	66,273,041	48,709,761
Total assets	<u>\$ 1,112,496,894</u>	<u>\$ 924,779,610</u>	Total net assets	<u>647,915,810</u>	<u>627,036,242</u>
			Total liabilities and net assets	<u>\$ 1,112,496,894</u>	<u>\$ 924,779,610</u>

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues, net <i>(Note 6)</i> :		
Services	\$ 58,654,791	\$ 47,950,672
Rentals <i>(Note 10)</i>	25,356,546	23,858,138
Others	1,908,042	1,529,796
	85,919,379	73,338,606
Operating expenses:		
Depreciation and amortization, including depreciation of capital assets of \$18,223,942 <i>(Note 4)</i>	18,362,040	16,067,655
Personnel services <i>(Note 11)</i>	14,814,835	14,925,590
Harbor operations <i>(Note 13)</i>	13,954,410	12,804,681
Maintenance	2,657,460	3,492,797
State of Hawaii, surcharge for central service expenses <i>(Note 14)</i>	2,643,710	2,193,021
General administration	2,040,387	1,869,099
Fireboat operations <i>(Note 14)</i>	1,916,779	2,173,961
Department of Transportation, general administration expenses <i>(Note 14)</i>	1,539,065	1,664,048
	57,928,686	55,190,852
Operating income	27,990,693	18,147,754
Nonoperating revenues (expenses):		
Interest income <i>(Note 3)</i> :		
Deposits in investment pool	2,098,049	816,301
Net increase in the fair value of amounts held in State Treasury <i>(Note 3)</i>	3,791,542	9,051,709
Interest expense:		
Bonds <i>(Notes 6, 8, and 9)</i>	(18,385,467)	(12,722,463)
Airports Division <i>(Note 16)</i>	(1,398,210)	-
Other	(164,082)	-
Loss on disposal of capital assets	(2,123,406)	(104,625)
Amortization of bond discount, premium, issue costs, and loss on refunding	(355,624)	(272,386)
	(16,537,198)	(3,231,464)
Income before capital contributions	11,453,495	14,916,290
Capital contributions <i>(Note 4)</i>	9,426,073	3,865,189
Increase in net assets	20,879,568	18,781,479
Net assets as of beginning of year	627,036,242	608,254,763
Net assets as of end of year	\$ 647,915,810	\$ 627,036,242

See accompanying notes to financial statements.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 88,907,173	\$ 73,337,020
Cash paid to suppliers	(24,915,001)	(23,832,161)
Cash paid to employees	(14,164,129)	(13,437,727)
Net cash provided by operating activities	<u>49,828,043</u>	<u>36,067,132</u>
Cash flows from capital and related financing activities:		
Proceeds received from issuance of revenue bonds	164,275,000	–
Proceeds received from issuance of refunding revenue bonds	37,115,000	–
Payment for refunding of revenue bonds	(39,294,654)	–
Payment for loan to State of Hawaii	(186,192,996)	–
Government grants received in aid of construction	9,426,073	461,331
Acquisition and construction of capital assets	(31,584,312)	(14,558,705)
Principal paid on bonds	(12,135,760)	(11,406,555)
Interest paid on bonds	(14,933,189)	(14,633,865)
Other interest paid	(125,471)	–
Net premiums received on bonds	256,496	–
Bond issuance costs	(1,896,804)	–
Net cash used in capital and related financing activities	<u>(75,090,617)</u>	<u>(40,137,794)</u>
Cash flows from investing activities:		
Interest received	3,463,918	2,459,597
Change in fair value of investments of pooled cash balances	3,791,542	9,051,709
Net cash provided by investing activities	<u>7,255,460</u>	<u>11,511,306</u>
Net increase (decrease) in cash and cash equivalents	(18,007,114)	7,440,644
Cash and cash equivalents at beginning of fiscal year	234,845,545	227,404,901
Cash and cash equivalents at end of fiscal year	<u>\$ 216,838,431</u>	<u>\$ 234,845,545</u>

(Continued on following page)

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 27,990,693	\$ 18,147,754
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	18,223,942	16,067,655
Other amortization	138,098	-
Provision for doubtful accounts	(2,921,984)	1,849,033
Changes in assets and liabilities:		
Receivables	(4,520,352)	(1,744,594)
Materials and supplies	(3,963)	(4,520)
Prepaid insurance and others	(800,731)	-
Other assets	-	(690,490)
Payables	2,187,080	(7,533)
Accrued vacation	118,893	(116,064)
Accrued workers' compensation	199,579	264,100
Other postretirement benefits payable	1,570,370	1,603,927
Security deposits	96,951	(109,457)
Due to Department of Budget and Finance	(641,063)	807,321
Due to the Airports Division	8,190,530	-
Net cash provided by operating activities	\$ 49,828,043	\$ 36,067,132
 Supplemental disclosure of noncash capital and related financial activities:		
Amortization of bond discount, issue costs, and loss on refunding	\$ (355,624)	\$ (272,386)
Capital contributions	\$ 9,426,073	\$ 3,865,189

See accompanying notes to financial statements.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

1. Financial Reporting Entity

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

The Harbors Division is part of the DOT, which is part of the executive branch of the State. 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 accompanying financial statements present only the activities of the Harbors Division and are not intended to present fairly the financial position of the State and the results of its operations and cash flows of its business-type activities in conformity with accounting principles generally accepted in the United States of America.

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), defines the "Undertaking" as all of the harbor and waterfront improvements and other properties under the jurisdiction, control, and management of the Harbors Division, except those principally used for recreation and the landing of fish.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting policies of the Harbors Division conform to 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.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

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 and amounts held in State Treasury.

Restricted Assets

Restricted assets consists of monies and other resources, including amounts for the principal and interest accumulated to make debt service payments, unspent bond proceeds, amounts restricted for bond reserve requirements, loan to State of Hawaii, security deposits, and customer advances.

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 State Department of the Attorney General, when it believes, after considering economic conditions, business conditions, and collection efforts, that the accounts are uncollectible.

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

Risk Management

The Harbors Division is exposed to various risks for losses related to, among other risks, 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.

**Harbors Division
 Department of Transportation
 State of Hawaii
 (An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

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. Disposals of assets are recorded by removing the cost and related accumulated depreciation from the accounts with the resulting gain or loss reflected in nonoperating revenues or expenses.

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

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

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

Bond Issue Costs

Costs relating to the issuance of bonds are amortized using the straight-line method over the term of the obligations.

Unamortized Debt Premium (Discount)

Debt premium (discount) is amortized using the effective interest rate method 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. See Note 6.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

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. See Note 6.

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 Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences* (GASB 16). Vacation is earned at the rate of 168 hours per calendar year, depending on an employee's date of hire. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment.

Operating Revenues

Operating revenues are those that result from providing goods and services and are reported net of bad debt. The provision for bad debts for the years ended June 30, 2011 and 2010 was approximately \$582,000 and \$1,849,000, respectively. Operating revenues also excludes revenues related to capital and related financing activities, noncapital financing activities, and investing activities.

The Harbors Division has pledged its future operating revenues, net of certain operating expenses, to repay \$383,750,000 in Harbor Revenue Bonds. Proceeds from the bonds provided financing for the construction of new facilities and the improvement of existing facilities related to the State's commercial harbors. The bonds are payable solely from the Harbors Division's operating revenues and are payable through July 2040.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

The total principal and interest remaining to be paid on the bonds is approximately \$669,666,000. Principal and interest paid (as defined by the Harbor revenue bond debt service requirements under the 1997 certificate) and total operating revenues, net of certain operating expenses, were approximately \$22,990,000 and \$54,493,000, respectively, for the year ended June 30, 2011, and approximately \$23,226,000 and \$42,116,000, respectively, for the year ended June 30, 2010.

Operating Expenses

All expenses related to operating the Harbors Division are reported as operating expenses. Interest income, interest expense, financing costs, and loss on disposal of capital assets are reported as nonoperating revenues and expenses.

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

Capital Contributions

The Harbors Division receives federal grants restricted for capital asset acquisition and facility development. Grants are considered earned as the related allowable expenditures are incurred, and are reported in the statements of revenues, expenses, and changes in net assets, after nonoperating revenues and expenses as capital contributions.

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 disclosure 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.

**Harbors Division
 Department of Transportation
 State of Hawaii
 (An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Amounts held in State Treasury	\$ 216,725,287	\$ 234,827,686
Petty cash and other	<u>113,144</u>	<u>17,859</u>
	<u>\$ 216,838,431</u>	<u>\$ 234,845,545</u>

Such amounts are reflected in the statements of net assets at June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Current assets:		
Unrestricted	\$ 109,556,537	\$ 82,808,160
Restricted	29,289,844	17,174,218
Noncurrent assets:		
Restricted	<u>77,992,050</u>	<u>134,863,167</u>
	<u>\$ 216,838,431</u>	<u>\$ 234,845,545</u>

Amounts Held in State Treasury

The State maintains an investment pool that is used by various state departments and agencies, including the Harbors Division. The amount reported as amounts held in State Treasury reflects the Harbors Division's relative position in the State's investment pool. For demand or checking accounts and time certificates of deposits, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

The State Director of Finance (the Director) is responsible for the safekeeping of all monies paid into the State Treasury. The Director pools and invests any monies of the State, which, in the Director's judgment, are in excess of amounts necessary for meeting the specific requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, auction rate securities maintaining a Triple-A rating, repurchase agreements, commercial paper, banker's acceptances, and money market funds.

The State Director of Finance is permitted under Section 34-24, Hawaii Revised Statutes, to make temporary non-interest bearing loans when there are moneys in the general, special, or revolving funds of the State which in the Director of Finance's judgment are in excess of immediate State requirements. The State Director of Finance informed the Acting Comptroller of the Department of Accounting and General Services that unspent Harbor Revenue Bond proceeds included in the State of Hawaii's Bond Fund in the amount of \$186,192,996 were used as a temporary non-interest bearing loan on June 30, 2011 to cover the State's general obligation bond project expenditures in FY 2011. The State Director of Finance advised the Harbors Division that the State of Hawaii (the State) recorded a liability to the Harbors Division as of June 30, 2011 to account for this transaction. As of December 7, 2011, the State of Hawaii completed a sale of \$800 million in general obligation bonds and used a portion of the bond proceeds to repay the entire temporary loan from the Harbors Division. Accordingly, this temporary loan to the State is presented as a current restricted asset in the accompanying statement of net assets as of June 30, 2011.

The non-interest bearing loan of unspent Harbor Revenue Bond proceeds to cover the State's general obligation bond project expenditures is authorized under the Certificate of the Director of Transportation Providing for the Issuance of State of Harbor System Revenue Bonds and did not affect the exclusion of the interest from gross income for federal income tax purposes.

At June 30, 2011 and 2010, the amounts reported as amounts held in State Treasury reflects the Harbors Division's relative position in the State's investment pool and amounted to \$216,725,287 and \$234,827,686, respectively. The June 30, 2011 total cash and cash equivalents balance of \$216,838,431 reflects the temporarily reduced balance in unspent Harbor Revenue Bond proceeds from \$191,007,404 to \$4,814,408 as a result of the loan.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

A portion of the State's investment pool is invested in auction rate securities collateralized by student loans issued by the federal government. In November 2010, the State and Citigroup Global Markets Inc. (Citi) reached an agreement whereby in June 2015, the State will have the option to require Citi to purchase some or all of the State's remaining investments in auction rate securities. The agreement also provides that starting July 2012, the State will have the ability to obtain interim liquidity on its auction rate securities portfolio of up to \$150 million worth of securities, at market value, with the difference between that market value and par paid by Citi in July 2015. During fiscal 2011 and 2010, the Harbors Division's allocated share of the adjustments to increase the carrying value of the State's auction rate securities to their fair value at June 30, 2011 and 2010 amounted to \$3,791,542 and \$9,051,709, respectively, which are reflected as net increase in the fair value of amounts held in State Treasury in the accompanying statement of revenues, expenses, and changes in net assets.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk

The State's investment policy limits its investments to investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, banker's acceptances, money market funds, and auction rate securities maintaining a Triple-A rating.

Custodial Risk

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

Concentration of Credit Risk

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

Information relating to the amounts held in State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount and corresponding bank balances of the investment pool and collateralization of the investment pool balances, as well as custodial credit risk, interest rate risk, concentration of credit risk, and foreign currency risk, is included in the Comprehensive Annual Financial Report (CAFR) of the State.

The Harbors Division's share of the State's investment pool, as summarized in the table below, was 24% at June 30, 2010 (amounts in thousands):

	<u>Fair value</u>	<u>Maturity (in years)</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>>5</u>
Investments – Primary				
Government:				
Student loan auction rate securities	\$ 337,948	\$ —	\$ —	\$ 337,948
Certificates of deposit	7,504	3,937	3,567	—
U.S. government securities	294,145	207,364	73,431	13,350
Repurchase agreements	269,557	234,408	35,149	—
	<u>\$ 909,154</u>	<u>\$ 445,709</u>	<u>\$ 112,147</u>	<u>\$ 351,298</u>
Investments – Fiduciary Funds:				
Student loan auction rate securities	\$ 46,804	\$ —	\$ —	\$ 46,804
Certificates of deposit	731	731	—	—
U.S. government securities	23,401	—	—	23,401
Repurchase agreements	2,194	2,194	—	—
	<u>\$ 73,130</u>	<u>\$ 2,925</u>	<u>\$ —</u>	<u>\$ 70,205</u>

Information relating to the State's investment pool at June 30, 2011 will be included in the CAFR of the State when issued.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

4. Capital Assets

Capital asset activity for the years ended June 30, 2011 and 2010 were as follows:

	Balance July 1 2010	Additions	Deductions	Balance June 30 2011
Nondepreciable assets:				
Land and improvements (Note 16)	\$ 250,093,717	\$ 8,190,530	\$ –	\$ 258,284,247
Depreciable assets:				
Land improvements	200,850,978	1,160,575	–	202,011,553
Wharves	258,678,542	113,200	–	258,791,742
Other improvements	68,899,753	1,289,670	(132,449)	70,056,974
Buildings	87,490,695	52,718	(3,514,286)	84,029,127
Equipment	16,026,385	1,295,656	(3,976)	17,318,065
Total at cost	<u>882,040,070</u>	<u>12,102,349</u>	<u>(3,650,711)</u>	<u>890,491,708</u>
Less accumulated depreciation for:				
Land improvements	50,104,467	5,988,195	–	56,092,662
Wharves	103,228,476	7,713,426	–	110,941,902
Other improvements	32,791,276	1,779,787	–	34,571,063
Buildings	28,794,940	2,212,616	(1,405,714)	29,601,842
Equipment	12,059,295	529,918	(40,851)	12,548,362
Total accumulated depreciation	<u>226,978,454</u>	<u>18,223,942</u>	<u>(1,446,565)</u>	<u>243,755,831</u>
Construction in progress	22,751,287	24,001,596	(4,050,578)	42,702,305
Total capital assets, net	<u>\$ 677,812,903</u>	<u>\$ 17,880,003</u>	<u>\$ (6,254,724)</u>	<u>\$ 689,438,182</u>

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

	Balance July 1 2009	Additions	Deductions	Balance June 30 2010
Nondepreciable assets:				
Land and improvements	\$ 250,093,717	\$ –	\$ –	\$ 250,093,717
Depreciable assets:				
Land improvements	168,987,231	31,967,590	(103,843)	200,850,978
Wharves	226,322,765	32,355,777	–	258,678,542
Other improvements	68,122,375	777,378	–	68,899,753
Buildings	84,323,969	3,166,726	–	87,490,695
Equipment	14,864,800	1,161,585	–	16,026,385
Total at cost	<u>812,714,857</u>	<u>69,429,056</u>	<u>(103,843)</u>	<u>882,040,070</u>
Less accumulated depreciation for:				
Land improvements	45,110,111	4,994,356	–	50,104,467
Wharves	96,612,720	6,615,756	–	103,228,476
Other improvements	31,020,448	1,770,828	–	32,791,276
Buildings	26,708,353	2,086,587	–	28,794,940
Equipment	11,464,903	600,128	(5,736)	12,059,295
Total accumulated depreciation	<u>210,916,535</u>	<u>16,067,655</u>	<u>(5,736)</u>	<u>226,978,454</u>
Construction in progress	72,553,821	16,424,271	(66,226,805)	22,751,287
Total capital assets, net	<u>\$ 674,352,143</u>	<u>\$ 69,785,672</u>	<u>\$ (66,324,912)</u>	<u>\$ 677,812,903</u>

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

5. Long-Term Liabilities

The changes in long-term liabilities were as follows:

	Balance July 1 2010	Additions	Deductions	Balance June 30 2011	Current	Noncurrent
Accrued workers' compensation (Note 12)	\$ 671,051	\$ 491,679	\$ 292,100	\$ 870,630	\$ 190,742	\$ 679,888
Accrued vacation	2,254,257	1,054,671	935,778	2,373,150	574,065	1,799,085
Other post-retirement benefits payable (Note 11)	4,718,518	2,220,237	649,867	6,288,888	-	6,288,888
General obligation bonds (Note 8)	37,362,029	-	1,140,760	36,221,269	1,609,315	34,611,954
Revenue bonds (Note 6)	232,285,000	201,390,000	49,925,000	383,750,000	7,815,000	375,935,000
Less:						
Unamortized discount	(76,683)	-	(57,568)	(19,115)	(1,845)	(17,270)
Unamortized premium	2,170,715	256,496	331,692	2,095,519	346,748	1,748,771
Unamortized deferred loss on refunding	(5,229,525)	(1,599,437)	(1,106,142)	(5,722,820)	(489,205)	(5,233,615)
Revenue bonds, net	229,149,507	200,047,059	49,092,982	380,103,584	7,670,698	372,432,886
	\$ 274,155,362	\$ 203,813,646	\$ 52,111,487	\$ 425,857,521	\$ 10,044,820	\$ 415,812,701

	Balance July 1 2009	Additions	Deductions	Balance June 30 2010	Current	Noncurrent
Accrued workers' compensation (Note 12)	\$ 406,951	\$ 295,448	\$ 31,348	\$ 671,051	\$ 166,477	\$ 504,574
Accrued vacation	2,370,321	845,478	961,542	2,254,257	516,901	1,737,356
Other post-retirement benefits payable (Note 11)	3,114,591	2,243,154	639,227	4,718,518	-	4,718,518
General obligation bonds (Note 8)	38,328,584	-	966,555	37,362,029	1,140,760	36,221,269
Revenue bonds (Note 6)	242,725,000	-	10,440,000	232,285,000	10,995,000	221,290,000
Less:						
Unamortized discount	(84,063)	-	(7,380)	(76,683)	(6,846)	(69,837)
Unamortized premium	2,508,669	-	337,954	2,170,715	306,365	1,864,350
Unamortized deferred loss on refunding	(5,668,329)	-	(438,804)	(5,229,525)	(438,804)	(4,790,721)
Revenue bonds, net	239,481,277	-	10,331,770	229,149,507	10,855,715	218,293,792
	\$ 283,701,724	\$ 3,384,080	\$ 12,930,442	\$ 274,155,362	\$ 12,679,853	\$ 261,475,509

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

6. Revenue Bonds Payable

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

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

The Revenue Bonds are subject to redemption at the option of the Director of DOT and the State during specific years at prices ranging from 101% to 100% of face value.

In November 2010, the Harbors Division issued \$201,390,000 of Revenue Bonds, consisting of \$164,275,000 of Series A of 2010 Revenue Bonds and \$37,115,000 of Series B of 2010 Revenue Bonds. The Harbors Division's net proceeds of \$199,749,000 (including net premiums of \$256,000 and after payment of \$1,897,000 in underwriting fees), were used to advance refund certain outstanding Revenue Bonds, as well as to fund future harbor capital improvement projects. The Series A of 2010 Revenue Bonds are secured by a cash deposit of \$11,455,033.

The net proceeds from the Series B of 2010 Revenue Bonds, along with \$2,180,000 from the Harbors Division's cash accounts, were used to advance refund a portion (\$38,930,000) of the Series A of 2000 Revenue Bonds previously issued and for a redemption premium of \$389,000. The advance refunding resulted in a difference between the acquisition price and the net carrying amount of the refunded debt of \$1,599,000. This difference, reported in the accompanying financial statements as a deferred loss on refunding, is being charged to operations over the next 11 years. However, due to the advanced refunding, the Harbors Division decreased its total debt service payments over the next 11 years by \$2,554,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,916,000.

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2011:

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current		Total Current	Noncurrent	
				Principal Due July 1 2011	Principal Due January 1 2012			
2000	July 1, 2029	5.75%	\$ 79,405,000	\$ -	\$ -	\$ -	\$ 14,670,000	
2002	July 1, 2019	3.00-5.50%	24,420,000	575,000	-	575,000	10,010,000	
2004	January 1, 2024	2.50-6.00%	52,030,000	-	1,290,000	1,290,000	22,075,000	
2006	January 1, 2031	4.00-5.25%	96,570,000	-	2,525,000	2,525,000	83,065,000	
2007	July 1, 2027	4.25-5.50%	51,645,000	1,540,000	-	1,540,000	46,610,000	
2010	July 1, 2040	3.00-5.75%	201,390,000	1,885,000	-	1,885,000	199,505,000	
				\$505,460,000	\$ 4,000,000	\$ 3,815,000	7,815,000	375,935,000
Less:								
Unamortized discount							(1,845)	(17,270)
Unamortized premium							346,748	1,748,771
Unamortized deferred loss on refunding							(489,205)	(5,233,615)
							\$7,670,698	\$ 372,432,886

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	7,815,000	19,954,623	27,769,623
2013	12,040,000	19,490,985	31,530,985
2014	12,655,000	18,874,148	31,529,148
2015	13,290,000	18,238,385	31,528,385
2016	13,960,000	17,577,191	31,537,191
2017-2021	81,335,000	76,370,449	157,705,449
2022-2026	83,015,000	54,174,888	137,189,888
2027-2031	71,995,000	34,327,938	106,322,938
2032-2036	37,710,000	19,569,231	57,279,231
2037-2041	49,935,000	7,337,953	57,272,953
	\$383,750,000	\$ 285,915,791	\$ 669,665,791

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

The debt service requirements reflect the sum of the amounts to be paid in accordance with the repayment schedules of the bonds issued. 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 debt service requirements include reserves of \$17,834,811 as of June 30, 2011, for principal payments (\$7,815,000) due on July 1, 2011 and January 1, 2012, and for interest payments (\$10,019,811) due on July 1, 2011.

7. Harbor Revenue Bond Requirements

1997 Certificate – Minimum Net Revenue Requirement

Pursuant to Section 6.03 of the 1997 Certificate, the Harbors Division covenants and agrees that so long as any of the Revenue 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) 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 Revenue Bonds outstanding under the 1997 Certificate, (ii) the principal amount of the Revenue Bonds maturing by their terms during such 12 months and (iii) the minimum sinking fund payments for all Revenue Bonds required to be made during such 12 months; and
- (2) 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 \$22,990,163. Net revenues of the Public Undertaking, as defined by the 1997 Certificate amounted to \$61,992,150 or 2.70 times the minimum net revenue requirement for the fiscal year ended June 30, 2011, and \$48,122,389 or 2.07 times the minimum net revenue requirement for the fiscal year ended June 30, 2010.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

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 Revenue Bonds are required to be paid into this account. This requirement was met as of June 30, 2011 and 2010.

(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 Revenue Bonds scheduled for redemption on the following July 1 and January 1. This requirement was met as of June 30, 2011 and 2010.

(3) Harbor Debt Service Reserve Account

In order to provide a reserve for the payment of the principal and interest on the Revenue 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 1 or January 1 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 Revenue 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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

reserve requirement allocable to a series of Revenue Bonds, so long as such surety bond, insurance policy, or letter of credit is in effect, the owners of such series of Revenue 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 Revenue Bonds, nor shall the owners of Revenue 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 Revenue 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 Revenue 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 Revenue Bonds), DOT shall receive written confirmation from the rating agency that the rating on the Revenue 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 Revenue 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.

**Harbors Division
 Department of Transportation
 State of Hawaii
 (An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

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

8. General Obligation Bonds

In fiscal 2006, the State issued \$350,000,000 of General Obligation bonds, Series DI, dated March 23, 2006; in fiscal 2007, the State issued \$350,000,000 of General Obligation bonds, Series DJ, dated March 28, 2007; and in fiscal 2008, the State issued \$375,000,000 of General Obligation bonds, Series DK, dated May 1, 2008. Interest rates on the Series DI, Series DJ, and Series DK General Obligation bonds range from 3.00% to 5.00%.

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	1,609,315	1,771,602	3,380,917
2013	1,678,482	1,702,350	3,380,832
2014	1,757,503	1,623,176	3,380,679
2015	1,844,233	1,536,820	3,381,053
2016	1,932,016	1,448,637	3,380,653
2017-2021	11,160,679	5,743,114	16,903,793
2022-2026	14,210,023	2,694,025	16,904,048
2027-2028	2,029,018	144,052	2,173,070
	<u>\$ 36,221,269</u>	<u>\$ 16,663,776</u>	<u>\$ 52,885,045</u>

9. Interest Cost

Total combined interest cost incurred related to Revenue and General Obligation Bonds for the fiscal years ended June 30, 2011 and 2010 amounted to approximately \$18,773,000 and \$14,379,000, respectively. Of this amount, approximately \$388,000 and \$1,657,000 were capitalized during fiscal years ended June 30, 2011 and 2010, respectively, as part of the construction cost of harbor facilities.

**Harbors Division
 Department of Transportation
 State of Hawaii
 (An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

10. Leasing Operations

The Harbors Division’s leasing operations consist principally of the leasing of land, wharf, and building space under revocable permits and long-term leases. The revocable permits provide for tenancy on a month-to-month basis and are renewable annually at the option of the State. The long-term leases, which are classified as operating leases, expire in various years through September 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.

The following is a schedule of approximate future minimum lease rentals on noncancelable operating leases as of June 30, 2011.

Fiscal Year Ending June 30	Amount
2012	8,936,725
2013	8,766,012
2014	8,612,555
2015	7,271,357
2016	6,934,661
2017–2021	26,082,308
2022–2026	25,868,773
2027–2031	22,136,831
2032–2036	16,762,763
2037–2041	10,557,080
2042–2046	7,564,340
2047–2051	2,702,545
2052–2056	2,656,710
2057–2059	947,460
	<u>\$ 155,800,120</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 reopenings after the fifteenth year in which rental rates will be based upon the prevailing fair value.

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

11. Retirement Benefits

Employees' Retirement System

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

Members of the ERS belong to either a contributory, noncontributory, or hybrid option. Only employees of the Harbors Division hired on or before June 30, 1984 are eligible to participate in the contributory option. Members are required by State statute to contribute 7.8% of their salary to the contributory option and 6% to the hybrid option. The Harbors Division is required to contribute to all options at an actuarially determined rate. Total contributions by the Harbors Division for the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$1,367,000, \$1,462,000 and \$1,590,000, respectively. The contribution rate for each of the fiscal years ended June 30, 2011, 2010, and 2009 was 15.00%. The Harbors Division contributed 100% of its required contribution for each of those years.

Post-Retirement Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain healthcare and life insurance benefits to retired State employees.

Pursuant to Act 88, SLH of 2001, the State established the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the EUTF). The EUTF is the state agency that provides eligible employees and retirees of the State, including the Harbors Division, and their eligible dependents, with certain health and life insurance benefits at a cost affordable to both the State and participants beginning July 1, 2003. The EUTF administers post-retirement healthcare benefits under an agent multiple-employer defined benefit plan.

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

The EUTF is administratively attached to the Department of Budget and Finance in the executive branch of the State. The EUTF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

The EUTF is administered by a Board of Trustees (the Board) composed of ten trustees appointed by the Governor of the State of Hawaii. The Board is responsible for determining the nature and scope of benefit plans offered by the EUTF, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the EUTF, and overseeing all EUTF's activities.

Funding Policy

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. Additionally, a retiree can elect a family plan to cover dependents with the State paying for the coverage.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with over 25 years of service, the State pays the entire base monthly contribution. Retirees in this category can elect a family plan to cover dependents with the State paying for the coverage.

The contribution rates for employees hired after June 30, 2001, are consistent with the contribution rates for those hired after June 30, 1996, but only single plan coverage is provided. These retirees can elect family coverage, but must pay the additional cost for the family coverage.

For active employees, the employer's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

**Harbors Division
 Department of Transportation
 State of Hawaii
 (An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

The State is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Annual OPEB Cost

Measurement of the actuarial valuation and the ARC is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Harbors Division. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The table below summarizes the components of the annual OPEB cost that have been allocated to the Harbors Division by the State.

	June 30, 2011	June 30, 2010
Annual required contribution	\$ 2,220,000	\$ 2,243,000
Contributions made	(650,000)	(639,000)
Increase in net OPEB obligation	1,570,000	1,604,000
Net OPEB obligation, beginning of the year	4,719,000	3,115,000
Net OPEB obligation, end of the year	\$ 6,289,000	\$ 4,719,000
Actual contributions made as a percentage of ARC	29.3%	28.5%

Contributions are financed on a pay-as-you-go basis and the Harbors Division's contributions for the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$650,000, \$639,000, and \$939,000, respectively, which represents 29.3%, 28.5% and 36.1%, respectively, of the annual required contribution.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The State's CAFR includes the required footnote disclosures and required supplementary information on the State's OPEB plans, including the actuarial methods and assumptions used. The State's CAFR can be obtained at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

12. Risk Management

The Harbors Division is exposed to various risks of loss related to, among other risks, torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation and acts of terrorism.

The State has retained the first \$1,000,000 per occurrence of property losses, the first \$4,000,000 per occurrence with respect to general liability claims and the first \$500,000 per occurrence with respect to criminal acts.

The State obtained commercial coverage for losses in excess of these retention limits. The property loss, windstorm, flood, earthquake and boiler and machinery loss limit per occurrence is \$225,000,000 and \$100,000,000 for policy years 2011 and 2010, respectively. The terrorism loss limit per occurrence is \$50,000,000 for policy years 2011 and 2010. The State also obtained general liability insurance and crime insurance for State employees with a \$15,000,000 per occurrence or aggregate limit for policy years 2011 and \$10,000,000 for policy year 2010.

The Harbors Division obtained coverage for certain strategic piers and wharves infrastructure to mitigate its exposure to natural disasters from hurricane, earthquake, and flood (including a tsunami) events. The amount of insurance provided by this difference in conditions policy is \$25,000,000 on an annual aggregate basis on a shared perils basis.

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

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

13. Ceded Lands

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

Included in the Harbors Division's operating expenses in the accompanying statements of revenues, expenses, and changes in net assets for the fiscal years ended June 30, 2011 and 2010 are approximately \$7,717,000 and \$6,080,000, respectively, of OHA ceded land expenses.

14. Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Harbors Division, after deducting any amounts pledged, charged, or encumbered for the payment of bonds and interest during the fiscal year. The assessments amounted to approximately \$2,644,000 and \$2,193,000 for the fiscal years ended June 30, 2011 and 2010, respectively.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to approximately \$1,539,000 and \$1,664,000 for the fiscal years ended June 30, 2011 and 2010, respectively.

The Harbors Division incurred costs of approximately \$1,917,000 and \$2,174,000 for fireboat operation services provided by the City and County of Honolulu during the fiscal years ended June 30, 2011 and 2010, respectively.

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Notes to Financial Statements

June 30, 2011 and 2010

The Hawaii Harbors Task Force was formed in April 2005 by the Governor's office to respond on a priority basis to the pressing demands for infrastructure improvements in Honolulu Harbor. The Aloha Tower Development Corporation (ATDC) was tasked to work in partnership with the Harbors Division with the executive officer of the ATDC serving as the chief executive of the Hawaii Harbors Project Office. The ATDC was assigned to plan and execute major long-term redevelopment projects such as the former Kapalama Military Reservation and various projects at Honolulu Harbor.

Act 200, Session Laws of Hawaii (SLH), 2008, was enacted to authorize a statewide Harbors Modernization Plan (HMP) to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. The Act authorizes the DOT to issue harbor revenue bonds to finance the improvements. The cost of the Harbors Modernization Plan, originally estimated at \$842 million, was revised to \$618 million in 2008. Act 200 also designated the ATDC as the entity responsible for the management and implementation of the HMP under the direction of the DOT.

The State Legislature in its 2009 legislative session questioned ATDC's role and effectiveness and provided operational funding for only FY2010 of the FY2010-2011 biennium. In its 2010 legislative session, the Legislature did not restore operating funds to ATDC for FY2011, effectively terminating its operations on June 30, 2010. Contracts executed by ATDC for HMP projects were assigned to the Harbors Division, which assumed management and implementation responsibilities for the HMP. The modernization projects have been integrated into the administration's New Day Work Projects, a capital improvements program comprised of priority public works projects critical to create jobs and jumpstart the economy.

In the 2011 legislative session, Act 152, SLH 2011 was enacted to place the ATDC under the Department of Transportation for administrative purposes, redefine the boundaries of the Aloha Tower Complex and repealed references to the HMP, effective July 1, 2011. Act 152 provides that ATDC is headed by a three-member board comprised of the Directors of Transportation and Business, Economic Development and Tourism, and the Deputy Director of Harbors. The Director of Business, Economic Development and Tourism chairs the board and the Deputy Director of Harbors serves as the Chief Executive Officer for the ATDC.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

15. Aloha Tower Complex Development

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

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

The developer later went into bankruptcy. The subsequent operator of the Marketplace assumed the obligations of the sublease and the Operations Agreement in March 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the Marketplace construction was substantially completed, several items on a Harbors Division construction punch list have yet to be completed and were pursued with the new operator. Many of the items were completed by the Harbors Division and the actual cost to complete the punchlist items were in dispute. A settlement has been reached with the new operator to satisfy the punchlist obligations which have a total value of \$3.5 million, depending upon when actual payments are made by the operator within a six-year timeframe.

On January 18, 2006, an Agreement amending the Aloha Tower Project Memorandum of Understanding and Aloha Tower Ground Lease was executed, effective as of June 30, 2005, and retroactive to July 1, 2004 (the Amendment). The Amendment required ATDC to pay \$225,000 as a minimum annual base payment for losses in revenues owing in the fiscal year beginning July 1, 2004. From July 1, 2005, subject to the approval of the Deputy Director for the Harbors Division, the base payment of \$225,000 was to be reduced by expenses incurred by ATDC for the Hawaii Harbors Project Office. The Amendment also required an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the equity payment), provided that if the equity payment exceeds two and one-half times the actual operating expenses of ATDC for such fiscal

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

year, ATDC must make a supplemental payment equal to 75% of the difference between the equity payment and the product of two and one-half times the actual operating expenses of ATDC. These payments were to be applied to reduce the amount owed to the Harbors Division for losses in revenues by ATDC prior to July 1, 2004. The balance owed to the Harbors Division by ATDC as of June 30, 2011 and 2010 was approximately \$7,771,000 and is included in notes receivable, net of an allowance for doubtful accounts for the entire amount in the accompanying statements of net assets.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest for the Marketplace to Hawaii Lifestyle Retail Properties.

16. 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 resolve the use of the parcel and the \$8.2 million in Airport Division's funds. As a result, action on the issuance of the Executive Order for the remaining parcel was deferred until the matter could be resolved.

Plans for the future development of the KMR site will involve the creation of a new cargo container yard and vessel berthing piers. This project is a key priority under the Harbor's New Day Work Plan. The Federal Aviation Administration (FAA) review of the matter led to findings that the use of airport funds towards the purchase of KMR did not represent a permitted use of airport revenue. If Airports Division could not be provided with an equitable amount of land equal to its \$8.2 million investment, the FAA considered the \$8.2 million to be loan. Due to the importance of the KMR site in serving maritime interests, both divisions and the FAA reached agreement for the Harbors Division to pay approximately \$9,603,000, of which \$8,191,000 was capitalized as land and improvements, and the remaining balance to be recorded as interest expense (\$1,398,000 accrued as of June 30, 2011). Both divisions continue discussions to resolve the use of approximately 11.344 acres of ceded lands that were previously promised to the Airports Division near the KMR site.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

17. Arbitrage

The Harbors Division is required to annually calculate rebates to the U.S. Treasury on the Revenue Bonds issued from 1986. In accordance with the requirements of Section 148 of Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2011 and 2010, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

18. Commitments and Contingencies

Construction and Other Contracts

The Harbors Division is committed under contracts awarded for construction and other services. These commitments amounted to approximately \$61,607,000 and \$50,549,000 at June 30, 2011 and 2010, respectively.

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. The accumulated sick leave liabilities as of June 30, 2011 and 2010 were approximately \$5,501,000 and \$5,396,000, respectively.

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.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

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.

Environmental Issues

Iwilei District Participating Parties

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, however, since 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, it is not possible to reasonably estimate the total amount of the potential cost to the IDPP or the share allocated to the Harbors Division. Although, it is not possible to reasonably estimate the extent of the additional services or the costs associated to those services until the study and investigation of the remedial alternatives has been completed, the Harbors Division, in accordance with Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), accrued only for the estimated cost of the study and investigation allocated to the Harbors Division of approximately \$2,063,000, of which \$272,000 remains accrued and unpaid as of June 30, 2011.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Notes to Financial Statements

June 30, 2011 and 2010

Environmental Protection Agency

During December 2008, the United States Environmental Protection Agency (EPA) conducted an audit to determine Harbors Division's compliance with its Storm Water Environmental Permits (SWMP). As a follow up to this audit, on June 18, 2009, the EPA issued an Administrative Order directing the Harbors Division to revise its Storm Water Management Plan, upgrade environmental inspections and procedures, improve documentation of environmental inspections and follow up actions, establish "Best Management Practices" (BMPs) standards, and include the use of permanent BMPs in any construction projects that are undertaken on Harbor Division premises. The EPA is also requiring that the Harbors Division develop a resources plan which will demonstrate how the Harbors Division will maintain environmental compliance in the future. The EPA established several intermediate deadlines and an overall compliance deadline of December 31, 2010 to implement the SWMP. The Harbors Division entered into an agreement with Weston Solutions, Inc., an international environmental consulting firm, to assist the Harbors Division in complying with the Administrative Order, the cost of which is approximately \$366,000, of which \$246,000 is recorded in contracts payable as of June 30, 2011.

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.

19. Subsequent Events

The Harbors Division has evaluated subsequent events from the statements of net assets date through January 31, 2012, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

SUPPLEMENTAL INFORMATION

**Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)**

Cash and Cash Equivalents of the Public Undertaking

June 30, 2011

Unrestricted cash and cash equivalents	<u>\$ 109,556,537</u>
Restricted cash and cash equivalents:	
For construction—revenue bonds	4,814,408
For revenue bond debt service payments	17,834,811
For cash reserve requirement for Series A of 2010 revenue bonds	11,455,033
For revenue bond harbors reserve and contingency account	10,897,658
For construction—special purpose funds	58,971,514
For security deposits	2,618,460
For risk management	690,010
	<u>107,281,894</u>
	<u>\$ 216,838,431</u>
With Director of Finance, State of Hawaii	\$ 216,725,287
On hand	113,144
	<u>\$ 216,838,431</u>

See accompanying independent auditors' report.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds			Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Statewide:						
Environmental Consultant for Commercial Harbors	\$ 26,138	\$ -	\$ -	\$ -	\$ 26,138	\$ -
Various Special Maintenance Projects Requiring Civil/Structural Engineering Services	36,901	-	-	-	36,901	-
Various Commercial Harbor Security Improvements	996,588	22,307	-	6,748	-	1,025,643
Maritime Workers Identification Credentialing System	-	16,310	-	-	16,310	-
Security Surveillance System for Neighbor Island Passenger Terminals:						
Kahului Harbor, Maui; Hilo Harbor, Hawaii; Nawiliwili Harbor, Kauai	-	1,391	-	-	1,391	-
Installation of Septic System at Harbor Agent's Office, Kalaeloa B.P. Harbor and Installation of Lift Station and Force Main at Port Allen Harbor	-	8,000	-	-	8,000	-
Inter-Island Ferry System	-	1,685	41,580	-	43,265	-
Environmental Engineering Service for Special Maintenance Program	1,125	-	-	-	-	1,125
Planning and Development of State Commercial Harbors System	899,203	4,397	-	4,020	-	907,620
Consulting Engineer's Report of the Public Undertaking	92,246	7,541	-	-	-	99,787
Subtotal carried forward	2,052,201	61,631	41,580	10,768	132,005	2,034,175

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds				Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest			
Subtotal brought forward	\$ 2,052,201	\$ 61,631	\$ 41,580	\$ 10,768	\$ 132,005	\$ 2,034,175	
Statewide (continued):							
Site Surveying Services for CIP Projects Statewide	4,538	—	—	—	—	4,538	
State Commercial Harbor Plan and Development Projects	876,243	118,181	4,176	44,215	—	1,042,815	
Statewide Cruise Ship Industry Study	6,106	—	—	—	6,106	—	
Inter-Island Ferry Environmental Services and Planning Project	204,393	—	—	—	—	204,393	
GIS for the State of Hawaii DOT Harbors Division	28,616	5,121	—	—	—	33,737	
Construction Management for Harbors Projects	172	2,517	—	—	—	2,689	
Statewide Installation of Breasting Bollards	—	2,472	—	—	—	2,472	
Improvements for Surveillance of Waterside Infrastructure	—	261	—	—	—	261	
Honolulu Harbor:							
Reconstruction of Piers 52 and 53 Sand Island Container Yard, Honolulu Harbor, Oahu	—	105,000	—	—	105,000	—	
Phase 1: Construction of Pier 2 Cruise Terminal; Honolulu Harbor, Oahu	—	25,000	—	—	25,000	—	
Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu	—	603	457,449	—	458,052	—	
Subtotal carried forward	3,172,269	320,786	503,205	54,983	726,163	3,325,080	

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds				Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest			
Subtotal brought forward	\$ 3,172,269	\$ 320,786	\$ 503,205	\$ 54,983	\$ 726,163	\$ 3,325,080	
Honolulu Harbor (continued):							
Planning Services for the Development of the New Kapalama Container Terminal, Honolulu	792,996	213	231	6	—	793,446	
Phase 1 Environmental Assessment of the Former Kapalama Military Reservation Area, Honolulu	99,684	—	—	—	—	99,684	
Substructure Repairs at Pier 2, Honolulu Harbor Methane Mitigation Piers 36-38, Lease Parcels 3, 4, 5, 6, 7 and 8 Domestic Commercial Fishing Village, Honolulu Harbor	—	29,200	—	—	29,200	—	
Site Monitoring Domestic Commercial Fishing Village	753,082	76,458	—	6,563	610,625	225,478	
Construction of Miscellaneous Improvements for Pier 2 Cruise Terminal, Honolulu Harbor	14,549	54,902	—	—	69,451	—	
Construction Management and Inspections for Various Pier 2 Cruise Terminal Improvements, Honolulu Harbor, Oahu	—	30,335	—	—	30,335	—	
Pier 29 Extension, Honolulu Harbor, Oahu	1,104,208	—	—	—	—	1,104,208	
Condominium Property Regime, Piers 30-38	251,708	—	—	—	—	251,708	
Historic Documentation for the Development of the New Kapalama Container Terminal	149,038	—	—	—	—	149,038	
	134,255	—	—	—	—	134,255	
Subtotal carried forward	6,471,789	511,894	503,436	61,552	1,465,774	6,082,897	

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds			Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 6,471,789	\$ 511,894	\$ 503,436	\$ 61,552	\$ 1,465,774	\$ 6,082,897
Honolulu Harbor (continued):						
General Engineering Services for the Development of the New Kapalama Container Terminal, Honolulu	170,027	60,310	7,175	9,378	–	246,890
Barge Terminal Improvements at Piers 39 and 40	365,956	–	–	–	–	365,956
Construction of Pier 29 Container Yard	1,330,513	11,590,755	–	104,946	–	13,026,214
Port of Honolulu Passenger/Cargo Ship Facilities Improvements for Enhanced Harbor Security	886,145	601,783	–	17,676	1,505,604	–
Rehabilitation of Buildings and Yard Areas, Piers 34 and 35, Honolulu, Hawaii	–	82,115	4,967	2,188	–	89,270
Demolition of Structures at Former Kapalama Military Reservation HMP Project	39,914	24,817	1,154	2,644	–	68,529
Environmental Assessment and Other Pre-Development Studies for Renovation of Facilities at Piers 34 and 35	–	323,029	10,491	8,379	–	341,899
Development Plan to Relocate Harbors Tenants of the Former Kapalama Military Reservation	303,501	7,500	4,135	15,366	–	330,502
Coordination for Inter-Island Ferry Lay Berth	35,754	–	–	–	–	35,754
Subtotal carried forward	9,603,599	13,202,203	531,358	222,129	2,971,378	20,587,911

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds			Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 9,603,599	\$ 13,202,203	\$ 531,358	\$ 222,129	\$ 2,971,378	\$ 20,587,911
Honolulu Harbor (continued):						
Installation of Additional Cruise Ship Bollards at Pier 2, Honolulu Harbor	41,497	7,035	—	—	—	48,532
Soil Gas Management Study, Domestic Commercial Fishing Village, Honolulu, Harbor	14,809	358	—	—	15,167	—
Pier 2 Passenger Terminal Enhancements, Honolulu Harbor	10,292	16,983	—	—	27,160	115
Pier 39 Shed Demolition and Yard Lighting Improvements, HMP Project, Honolulu Harbor	842,616	—	198,093	4,550	—	1,045,259
Design Specifications for Relocation of UHSOEST Marine Center from Piers 44-45 to Pier 35, HMP Project, Honolulu Harbor	133,459	—	12,966	325	—	146,750
Relocation of Harbors Tenant to Kapalama Military Reservation	—	—	934	23	—	957
Construction of Improvements at Piers 12 and 15, HMP Project, Honolulu Harbor	17,777	—	148,145	4,613	—	170,535
Air Conditioning Repairs @ Honolulu Harbor Administration Building, SM Project to CIP	794,852	5,807	—	—	800,659	—
Subsidence Repairs and Finger Pier Demolition Pier 21, Honolulu Harbor SM Project to CIP	827,317	408,260	—	—	—	1,235,577
Subtotal carried forward	12,286,218	13,640,646	891,496	231,640	3,814,364	23,235,636

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds				Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest			
Subtotal brought forward	\$ 12,286,218	\$ 13,640,646	\$ 891,496	\$ 231,640	\$ 3,814,364	\$ 23,235,636	
Honolulu Harbor (continued):							
Pavement Repairs at Matson Terminals Container Yard, Honolulu Harbor SM Project to CIP	696,784	17,500	—	—	—	714,284	
Maintenance Dredging at Piers 52 and 53, Honolulu Harbor SM Project to CIP	743,760	—	—	—	—	743,760	
Pavement Repairs at Former Kapalama Military Reservation Area, Honolulu SM Project to CIP	103,865	108,181	—	—	—	212,046	
Structural Repairs at Piers 9 through 11, Honolulu Harbor SM Project to CIP	111,863	1,398,503	—	—	—	1,510,366	
Pavement Repairs at Piers 39 and 40, Honolulu Harbor SM Project to CIP	194,310	62,757	—	—	—	257,067	
Repairs to Waterline at Piers 13 and 14, Honolulu Harbor SM Project to CIP	137,806	922	—	—	—	138,728	
Repairs to Vent Line and Air Conditioning at Aloha Tower, Honolulu Harbor SM Project to CIP	119,897	41,383	—	—	—	161,280	
Repairs to Bulkhead at Pier 27, Honolulu Harbor SM Project to CIP	250,051	—	—	—	—	250,051	
Structural Repairs at Warehouse #6, Honolulu Harbor SM Project to CIP	141,602	38,900	—	—	—	180,502	
Subtotal carried forward	14,786,156	15,308,792	891,496	231,640	3,814,364	27,403,720	

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds				Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest			
Subtotal brought forward	\$ 14,786,156	\$ 15,308,792	\$ 891,496	\$ 231,640	\$ 3,814,364	\$ 27,403,720	
Honolulu Harbor (continued):							
Pavement Repairs at Horizon Lines Container Yard, Honolulu Harbor SM Project to CIP	206,098	75,272	—	—	—	281,370	
Substructure Repairs at Pier 9, Honolulu Harbor SM Project to CIP	839,250	—	—	—	—	839,250	
Repair Bollards at Piers 31-33 Honolulu Harbor SM Project to CIP	—	84,179	—	—	—	84,179	
Repair Pavement at Piers 39-40 PH II Honolulu Harbor SM Project to CIP	—	339,366	—	—	—	339,366	
Repair Windows at Harbors Administration Building SM Project to CIP	—	80,745	—	—	—	80,745	
Fender Repairs at Pier 39 Honolulu Harbor SM Project to CIP	—	58,398	—	—	—	58,398	
Electrical & Waterline Repairs at Piers 16-17 Honolulu Harbor SM Project to CIP	—	1,014,911	—	—	—	1,014,911	
Repair Piles and Waterline at Piers 24-26 Honolulu Harbor SM Project to CIP	—	27,666	—	—	—	27,666	
Repair Piles at Pier 40 Honolulu Harbor SM Project to CIP	—	102,516	—	—	—	102,516	
Replace Transformer at KMR, Honolulu Harbor SM Project to CIP	—	12,654	—	—	—	12,654	
Subtotal carried forward	15,831,504	17,104,499	891,496	231,640	3,814,364	30,244,775	

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds			Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 15,831,504	\$ 17,104,499	\$ 891,496	\$ 231,640	\$ 3,814,364	\$ 30,244,775
Kalaeloa Barbers Point Harbor:						
Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbor, Oahu	62,351	778,577	—	18,548	—	859,476
Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu	334,785	6,682	—	—	—	341,467
Testing and Disposal of Dredged Spoils Stockpiled at Pier 7, Kalaeloa Barbers Point Harbor, Oahu	—	7,441	—	—	7,441	—
Embankment Repairs Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	161,951	398,067	—	—	—	560,018
Repair Fender System Pier P-1, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	161,539	—	—	—	—	161,539
Repair Bullrails at Pier 7, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	127,506	17,539	—	—	—	145,045
Embankment Repairs, Phase 3, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	—	9,871	—	—	—	9,871
Kewalo Basin:						
Demolition and Cleaning of the Former GRG Enterprise Site	(1,995)	—	—	—	(1,995)	—
Subtotal carried forward	16,677,641	18,322,676	891,496	250,188	3,819,810	32,322,191

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds			Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 16,677,641	\$ 18,322,676	\$ 891,496	\$ 250,188	\$ 3,819,810	\$ 32,322,191
Kahului Harbor:						
Pier 1 Makai Comfort Station and Waterline Improvements, Kahului Harbor, Maui	—	3,055	—	—	3,055	—
Port of Kahului Passenger/Cargo Ship Facilities Improvements for Enhanced Harbor Security	3,367	315,162	—	—	—	318,529
Blue Earth EIS, Maui	268	—	—	—	268	—
Kahului Harbor Reconnaissance Study	30	—	—	—	—	30
Pavement Repairs Pier 1 Container Yard, Kahului Harbor, Maui SMP Project to CIP	250,846	—	—	—	—	250,846
Repaint Light Poles, Piers 2 and 3, Kahului Harbor, Maui SMP Project to CIP	90,733	2,321	—	—	—	93,054
Pavement Repairs Perimeter Road Kahului Harbor, Maui SMP Project to CIP	188,146	—	—	—	—	188,146
Repair Light Poles at Pier 1, Kahului Harbor Maui SMP Project to CIP	—	15,555	—	—	—	15,555
Hana Harbor:						
Hana Harbor Reconnaissance Study	30	—	—	—	—	30
Development Plan for Renovation and Pier Expansion Hana Harbor, Maui, HMP Project	139,536	163	91,791	2,673	—	234,163
Subtotal carried forward	17,350,597	18,658,932	983,287	252,861	3,823,133	33,422,544

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds			Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 17,350,597	\$ 18,658,932	\$ 983,287	\$ 252,861	\$ 3,823,133	\$ 33,422,544
Kaunalapau Harbor:						
Repair Fender System, Kaunalapau Harbor, Lanai SMP Project to CIP	120,423	5,277	—	—	—	125,700
Repair Rubber Tire Fenders Kaunalapau Harbor Lanai, SMP Project to CIP	—	175,057	—	—	—	175,057
Kaunakakai Harbor:						
Ferry System Improvements at Kaunakakai Harbor, Molokai Maui	161,620	27,896	—	—	—	189,516
Substructure Repairs Phase 5 at Kaunakakai Harbor, Molokai SMP Project to CIP	161,650	216,463	—	—	—	378,113
Repair Pavement at Cargo Yard at Kaunakakai Harbor, Molokai SMP Project to CIP	—	151,510	—	—	—	151,510
Hilo Harbor:						
Pier 1 Shed Modifications, Hilo Harbor, Hawaii	—	207,346	—	4,917	—	212,263
Construction of Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii	1,860,154	156,391	—	79,823	—	2,096,368
Design for Pier 1 Shed Roofing and Siding Improvements, Hilo Harbor, Hawaii	25,055	174,013	—	3,678	—	202,746
Subtotal carried forward	19,679,499	19,772,885	983,287	341,279	3,823,133	36,953,817

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds			Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 19,679,499	\$ 19,772,885	\$ 983,287	\$ 341,279	\$ 3,823,133	\$ 36,953,817
Hilo Harbor (continued):						
Additional Fencing at Pier 1 and Radio Bay Access Road, Hilo Harbor, Hawaii	14,542	33,756	—	—	—	48,298
Traffic Pattern Modifications at Hilo Harbor, Hawaii	11,288	20,598	—	—	—	31,886
Design for Pier 4 Inter-Island Cargo Terminal HMP Project Hilo Harbor, Hawaii	70,343	—	237,068	5,956	—	313,367
Pier 4 Inter-Island Cargo Terminal, Improvements to Kumau Street Entrance HMP Project Hilo Harbor, Hawaii	44,818	445	111,712	5,054	—	162,029
Substructure Repairs at Piers 2 and 3, Hilo Harbor Hawaii SMP Project to CIP	251,965	—	—	—	—	251,965
Installation of Fencing at Pier 1 Hilo Harbor, Hawaii SMP Project to CIP	115,978	—	—	—	—	115,978
Repave Apron at Pier 1 Hilo Harbor, Hawaii SMP Project to CIP	108,753	—	—	—	—	108,753
Repair to Water Tower, Hilo Harbor Hawaii SMP Project to CIP	—	156,793	—	—	—	156,793
Repair Sewer Pump Station at Hilo Harbor, Hawaii SMP Project to CIP	—	20,526	—	—	—	20,526
Subtotal carried forward	20,297,186	20,005,003	1,332,067	352,289	3,823,133	38,163,412

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds			Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 20,297,186	\$ 20,005,003	\$ 1,332,067	\$ 352,289	\$ 3,823,133	\$ 38,163,412
Hilo Harbor (continued):						
Substructure Repairs at Piers 1 and 2 Hilo Harbor, Hawaii SMP Project to CIP	–	14,511	–	–	–	14,511
Kawaihae Harbor:						
Kawaihae Harbor Modifications Feasibility Study	574,226	–	–	–	–	574,226
Bathymetric and Underwater Survey at Pier 1 Kawaihae Harbor, Hawaii	28,949	–	–	–	28,949	–
Improvements for New Terminal Cargo Facilities, Kawaihae Harbor, Hawaii	–	197	219,675	5,519	–	225,391
Design Engineering Pier 2 Terminal Improvements HMP Project Kawaihae Harbor, Hawaii	48,913	–	67,334	1,692	–	117,939
Substructure Repairs at Pier 2A Kawaihae Harbor, Hawaii SMP Project to CIP	619,983	29,976	–	–	–	649,959
Pavement Repairs Pier 2 Kawaihae Harbor, Hawaii SMP Project to CIP	124,657	–	–	–	–	124,657
Substructure Repairs at Pier 2a, Kawaihae Harbor, Hawaii SMP Project to CIP	–	692,699	–	–	–	692,699
Subtotal carried forward	21,693,914	20,742,386	1,619,076	359,500	3,852,082	40,562,794

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2011

Project	Balance July 1 2010	Additions by Source of Funds			Transfer Out	Balance June 30 2011
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 21,693,914	\$ 20,742,386	\$ 1,619,076	\$ 359,500	\$ 3,852,082	\$ 40,562,794
Nawiliwili Harbor:						
Nawiliwili Harbor Channel Modification Project	263,231	—	—	—	—	263,231
Kauai Commercial Harbors 2025 Master Plan Environmental Impact Statement	198,496	—	—	—	198,496	—
Reconstruction of Pier 2 Fendering System, Nawiliwili Harbor, Kauai	116,934	1,151,819	—	28,815	—	1,297,568
Pavement Repairs at Jetty Road, Nawilwili Harbor, Kauai SMP Project to CIP	148,247	—	—	—	—	148,247
Repairs to Waterline at Pier 2, Nawilwili Harbor, Kauai SMP Project to CIP	136,953	—	—	—	—	136,953
Pavement Repairs, Waapa Road, Nawiliwili Harbor, Kauai SMP Project to CIP	—	100,000	—	—	—	100,000
Port Allen Harbor:						
Repairs to Roof at Pier Shed, Port Allen Harbor, Kauai SMP Project to CIP	193,512	—	—	—	—	193,512
Total	<u>\$ 22,751,287</u>	<u>\$ 21,994,205</u>	<u>\$ 1,619,076</u>	<u>\$ 388,315</u>	<u>\$ 4,050,578</u>	<u>\$ 42,702,305</u>

See accompanying independent auditors' report.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Revenue Bonds of the Public Undertaking

Year Ended June 30, 2011

	Final Redemption Date	Interest Rate	Original Amount of Issue	Balance at June 30, 2011		
				Current	Noncurrent	Total
Issue of 2000	July 1, 2029	5.75%	\$ 79,405,000	\$ -	\$ 14,670,000	\$ 14,670,000
Issue of 2002	July 1, 2019	3.00-5.50%	24,420,000	575,000	10,010,000	10,585,000
Issue of 2004	January 1, 2024	2.50-6.00%	52,030,000	1,290,000	22,075,000	23,365,000
Issue of 2006	January 1, 2031	4.00-5.25%	96,570,000	2,525,000	83,065,000	85,590,000
Issue of 2007	July 1, 2027	4.25-5.50%	51,645,000	1,540,000	46,610,000	48,150,000
Issue of 2010	July 1, 2040	3.00-5.75%	201,390,000	1,885,000	199,505,000	201,390,000
			<u>\$ 505,460,000</u>	<u>\$ 7,815,000</u>	<u>\$ 375,935,000</u>	<u>\$ 383,750,000</u>

See accompanying independent auditors' report.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Income from Operations Before Depreciation

Year Ended June 30, 2011

	District											Total
	Oahu			Hawaii			Maui			Kauai		
	Statewide	Honolulu	Kalaheo	Hilo	Kawaihae	Kahului	Kaunakakai	Kaunapala	Hana	Nawiliwili	Port Allen	
Operating revenues, net												
Services:												
Wharfage	\$ -	\$ 38,456,806	\$ 1,603,897	\$ 1,552,892	\$ 1,686,550	\$ 3,046,263	\$ 202,720	\$ 79,928	\$ -	\$ 1,375,431	\$ -	\$ 48,004,487
Pax embark/embark	-	1,124,998	-	713,869	-	260,416	-	-	-	670,540	-	2,769,823
Dockage	-	3,341,951	525,907	267,683	38,565	420,575	39,870	4,970	-	399,933	3,626	5,043,080
Demurrage	-	428,922	3,089	117,801	123,037	27,287	-	-	-	5,152	-	705,288
Port entry	-	683,984	106,508	83,793	34,747	82,053	9,880	5,033	-	66,296	2,970	1,075,264
Mooring charges	-	390,767	1,107	17,334	29,455	272	2,402	-	-	-	336,944	778,281
Cleaning charges	-	193,083	-	-	-	-	-	-	-	2,680	-	195,763
Other services	-	61,680	-	224	8,868	1,800	-	-	-	2,446	7,787	82,805
Total services	-	44,682,191	2,240,508	2,753,596	1,921,222	3,838,666	254,872	89,931	-	2,522,478	351,327	58,654,791
Rentals:												
Wharf space and land	-	14,704,436	1,383,607	100,586	248,056	421,935	14,923	300	-	360,397	171,329	17,405,569
Storage	-	2,523,717	109,563	312,605	260,919	451,511	2,430	-	-	339,326	19,467	4,019,538
Automobile parking	-	801,665	1,890	88,186	10,356	95,872	-	-	-	76,590	13,492	1,088,051
Pipeline water	-	59,275	4,609	27,059	-	33,637	-	-	-	45,535	-	170,115
Other pipeline	-	585,637	872,013	436,947	25,242	534,893	12,270	13,143	-	84,888	108,240	2,673,273
Total rentals	-	18,674,730	2,371,682	965,383	544,573	1,537,848	29,623	13,443	-	906,736	312,528	25,356,546
Others:												
Sale of utilities	-	826,194	110,406	40,399	-	76,664	-	-	-	70,993	6,776	1,131,432
Miscellaneous	-	652,902	1,879	2,648	2,510	96,105	17,320	412	-	2,655	179	776,610
Total others	-	1,479,096	112,285	43,047	2,510	172,769	17,320	412	-	73,648	6,955	1,908,042
Total operating revenues	-	64,836,017	4,724,475	3,762,026	2,468,305	5,549,283	301,815	103,786	-	3,502,862	670,810	85,919,379
Operating expenses before depreciation and amortization:												
Personnel services	6,154,741	6,053,124	162,045	574,754	94,342	930,474	38,597	-	-	750,025	56,733	14,814,835
Harbor operations	7,727,722	4,191,767	542,469	438,095	345,866	196,077	11,829	-	-	466,320	34,265	13,954,410
Maintenance	698,176	913,743	36,734	271,693	177,805	159,191	98,250	4,541	26,334	268,525	2,468	2,657,460
State of Hawaii, surcharge for central service expenses	2,643,710	-	-	-	-	-	-	-	-	-	-	2,643,710
General administration	1,708,157	26,080	471	29,279	4,170	247,459	-	-	-	22,228	2,543	2,040,387
Fireboat operations	-	1,916,779	-	-	-	-	-	-	-	-	-	1,916,779
Department of Transportation, general administration expenses	1,539,065	-	-	-	-	-	-	-	-	-	-	1,539,065
Subtotal	20,471,571	13,101,493	741,719	1,313,821	622,183	1,533,201	148,676	4,541	26,334	1,507,098	96,009	39,566,646
Allocation of statewide expenses (1)	(20,471,571)	15,448,146	1,125,677	896,359	588,110	1,322,199	71,912	24,729	-	834,609	159,830	-
Total operating expenses before depreciation and amortization	-	28,549,639	1,867,396	2,210,180	1,210,293	2,855,400	220,588	29,270	26,334	2,341,707	255,839	39,566,646
Income (loss) from operations before depreciation and amortization	\$ -	\$ 36,286,378	\$ 2,857,079	\$ 1,551,846	\$ 1,258,012	\$ 2,693,883	\$ 81,227	\$ 74,516	\$ (26,334)	\$ 1,161,155	\$ 414,971	\$ 46,352,733

Note (1): Statewide expenses are allocated to the Harbors Division based upon their respective current year operating revenues to total current year operating revenues for all Harbors.

See accompanying independent auditors' report.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

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

Year Ended June 30, 2011

Net revenues, as defined by the 1997 Certificate:	
Operating income before depreciation and amortization	\$ 46,352,733
Add:	
Interest income	2,098,049
State of Hawaii, surcharge for central service expenses	2,643,710
Cash available in the harbor reserve and contingency account	10,897,658
	<u>\$ 61,992,150</u>
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments	<u>\$ 22,990,163</u>
Ratio of net revenues to harbor revenue bond debt service requirements	<u>2.70</u>

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)

Accounts Receivable Aging

June 30, 2011

	Total	Current	30 Days	60 Days	90 Days
Accounts receivable	\$ 10,630,890	\$ 7,238,566	\$ 310,133	\$ 359,554	\$ 2,722,637