



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, 2012 and 2011

(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)

Financial Statements and Supplemental Information

June 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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 December 21, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements 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. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Kobayashi, Kanetaka, Aoi, Lano & Yano CPAs LLC

Honolulu, Hawaii
December 21, 2012

Harbors Division
Department of Transportation
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Management's Discussion and Analysis

June 30, 2012 and 2011

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, 2012 and 2011. 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.

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Management's Discussion and Analysis (continued)

June 30, 2012 and 2011

Financial Highlights

- The Harbors Division's net assets at June 30, 2012 and 2011 amounted to \$686.7 million and \$647.9 million, respectively. Net assets increased by \$38.8 million in fiscal year 2012, an increase of 6.0%. Net assets increased by \$20.9 million in fiscal year 2011, an increase of 3.3%.
- Operating income amounted to \$40.1 million in fiscal year 2012, an increase of \$12.1 million or 43.4% as compared to 2011. Operating income amounted to \$28.0 million in fiscal year 2011, an increase of \$9.8 million or 54.2% as compared to 2010.

A summary of operations and changes in net assets for the fiscal years ended June 30, 2012, 2011, and 2010 follows:

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

	Year Ended June 30			2012 – 2011		2011 – 2010	
	2012	2011	2010	Increase (decrease)	% Change	Increase (decrease)	% Change
Operating revenues	\$ 103,877	\$ 85,920	\$ 73,339	\$ 17,957	20.9%	\$ 12,581	17.2%
Nonoperating revenues	801	2,098	816	(1,297)	(61.8)	1,282	157.1
Total revenues	<u>104,678</u>	<u>88,018</u>	<u>74,155</u>	<u>16,660</u>	<u>18.9</u>	<u>13,863</u>	<u>18.7</u>
Depreciation and amortization	20,561	18,362	16,068	2,199	12.0	2,294	14.3
Other operating expenses	43,170	39,567	39,123	3,603	9.1	444	1.1
Nonoperating expenses	21,096	22,427	13,100	(1,331)	(5.9)	9,327	71.2
Total expenses	<u>84,827</u>	<u>80,356</u>	<u>68,291</u>	<u>4,471</u>	<u>5.6</u>	<u>12,065</u>	<u>17.7</u>
Net increase (decrease) in the fair value of amounts held in State Treasury	<u>(408)</u>	<u>3,792</u>	<u>9,052</u>	<u>(4,200)</u>	<u>(110.8)</u>	<u>(5,260)</u>	<u>(58.1)</u>
Income before capital contributions	19,443	11,454	14,916	7,989	69.7	(3,462)	(23.2)
Capital contributions	<u>19,357</u>	<u>9,426</u>	<u>3,865</u>	<u>9,931</u>	<u>105.4</u>	<u>5,561</u>	<u>143.9</u>
Increase in net assets	<u>\$ 38,800</u>	<u>\$ 20,880</u>	<u>\$ 18,781</u>	<u>\$ 17,920</u>	<u>85.8%</u>	<u>\$ 2,099</u>	<u>11.2%</u>

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Management's Discussion and Analysis (continued)

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Operating Revenues

Total operating revenues for fiscal year 2012 were \$103.9 million compared to \$85.9 million for fiscal year 2011. Operating revenues consist primarily of service revenues and rental revenues, which accounted for 69.3% and 27.9% respectively, in fiscal year 2012, and 68.3% and 29.5%, respectively, in fiscal year 2011, 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 2012 and 2011 were \$72.0 million and \$58.7 million, respectively.

Service revenues for fiscal year 2012 increased \$13.3 million or 22.7% as compared to fiscal year 2011. Wharfage revenue from cargo movements increased by \$9.1 million from \$48.0 million in fiscal year 2011 to \$57.1 million in fiscal year 2012 due primarily to increases in tariff rates that took effect on July 1, 2011 of 15% that were applied to the rates then in effect. In addition, dockage fees increased by \$300,000 from \$5.0 million in fiscal year 2011 to \$5.3 million in fiscal year 2012 and passenger fees increased by \$2.9 million from \$2.8 million in fiscal year 2011 to \$5.7 million in fiscal year 2012.

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.

During fiscal year 2012, approximately 1.15 million passengers (inbound and outbound) passed through the harbors as compared to 1.20 million passengers in fiscal year 2011 and 1.13 million passengers in fiscal year 2010.

Passenger fee revenue increased by \$2.9 million or 107.2%, from \$2.8 million in 2011 to \$5.7 million in fiscal year 2012, due primarily to changes in the passenger fee rate structure that took effect on July 1, 2011. Prior to July 1, 2011, passengers on American flagged vessels were assessed a debark fee of \$2.50 and an embark fee of \$2.50 at Honolulu Harbor and an in-transit fee of \$1.85 per passenger at each in-transit neighbor island port as their vessels were on a continuous voyage whose point of origination and termination was a state port. Passengers on a foreign flagged vessel were assessed a \$2.50 debark fee and a \$2.50 embark fee at every call made at a State commercial port. Effective July 1, 2011, U.S. and foreign flagged passengers were charged a \$5.00 embark fee and a \$5.00 debark fee at the first and last port calls and a \$5.00 in-transit fee at each in-transit port between the first and last ports.

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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.

Passenger counts for fiscal year 2012 decreased by approximately 4.2% due to changes in how passengers were counted under the new rate structure. In 2011 passenger counts increased by approximately 5.9%. Approximately 52% of the fiscal year 2012 passengers were in-transit while 29% of the fiscal year 2011 passengers were in-transit. The year-over-year percentage increase is a result of a change in the rate structure.

Rental Revenues

Rental revenues in fiscal years 2012 and 2011 were \$29.0 million and \$25.4 million, respectively. The increase in rental revenue of \$3.6 million or 14.3% from fiscal year 2011 to fiscal year 2012 was due primarily to an increase in wharf space and land rents of \$2.9 million as a result of the transfer of approximately \$2.8 million from the Department of Business, Economic Development & Tourism on behalf of the Aloha Tower Special Fund in fiscal year 2012 pursuant to Act 152, SLH 2011 (see Note 14).

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.

Operating Expenses

Operating expenses, excluding depreciation and amortization, for fiscal years 2012 and 2011 amounted to \$43.2 million and \$39.6 million, respectively. The increase in operating expenses from fiscal year 2011 to fiscal year 2012 of \$3.6 million or 9.1% was due primarily to increases in harbor operations costs of approximately \$3.7 million and an increase in general and administrative expenses of approximately \$1.5 million, offset by decreases in maintenance expenses of approximately \$863,000, decreases in personal services costs of approximately \$362,000, and decreases in Department of Transportation, general administrative expenses of approximately \$506,000.

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 harbor operations costs of approximately \$1.1 million and 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.

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Harbor operations costs for fiscal year 2012 increased by approximately \$3.7 million as compared to fiscal year 2011 due primarily to an increase of \$1.7 million for expenses related to potential projects (\$459,300 for feasibility studies to modify Kawaihae Harbor and \$914,000 for Environmental Impact Studies and a Rapid Response EIS for Kahului Harbor related to the operation of a statewide ferry such as that of the Hawaii Superferry, and an increase in ceded land assessments of approximately \$1.5 million, which resulted from increased revenues earned from the land parcels designated as ceded lands. In fiscal year 2011, harbor operations expenses 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.

Personnel services costs for fiscal year 2012 decreased by approximately \$362,000 as compared to fiscal year 2011 due primarily to decreases in wages paid of approximately \$705,000, and in workers compensation expense of \$77,000. In fiscal year 2011 personnel services decreased by approximately \$111,000 as compared to fiscal year 2010 due primarily to a decrease in workers compensation expense of \$52,000.

General administration costs for fiscal year 2012 increased by \$1.5 million as compared to fiscal year 2011 due primarily to the amortization of premiums paid in fiscal year 2011 for difference in condition insurance of approximately \$837,000 and \$257,000 paid to the U.S. Army Corps of Engineers for the Harbors Division's share of a GIS study.

Central services costs for fiscal year 2012 increased by \$82,000 as compared to fiscal year 2011 due to expected higher earnings resulting from the tariff increases of 15% implemented July 1, 2011 against which the 5% State assessment is applied. In fiscal year 2011, central services costs 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.

Fireboat operations expenses for fiscal year 2012 increased by \$52,000 as compared to fiscal year 2011 primarily because of reduced staffing costs incurred for the first six months of fiscal year 2011, such reduced costs did not recur during fiscal year 2012. In fiscal year 2011, fireboat operations expenses 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.

Harbor maintenance expenses for fiscal year 2012 decreased by \$863,000 as compared to fiscal year 2011 due primarily to a \$415,000 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 2012 extended the service life of the related harbor assets and were capitalized. In fiscal year 2011, special maintenance expenditures incurred for several projects carried-over from prior years were charged to operations. 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.

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Department of Transportation, general administration expenses for fiscal year 2012 decreased by \$506,000 due to lower assessments for the year.

A summary of the Harbors Division's net assets at June 30, 2012, 2011, and 2010 are shown below:

Table 2
Condensed Statements of Net Assets
(In Thousands)

	As of June 30			2012 – 2011		2011 – 2010	
	2012	2011	2010	Increase (decrease)	% Change	Increase (decrease)	% Change
Current and other assets	\$ 419,618	\$ 423,059	\$ 246,966	\$ (3,441)	(0.8%)	\$ 176,093	71.3%
Capital assets	712,925	689,438	677,813	23,487	3.4	11,625	1.7
Total assets	1,132,543	1,112,497	924,779	20,046	1.8	187,718	20.3
Long-term liabilities	404,127	415,813	261,475	(11,686)	(2.8)	154,338	59.0
Current liabilities	41,700	48,768	36,268	(7,068)	(14.5)	12,500	34.5
Total liabilities	445,827	464,581	297,743	(18,754)	(4.0)	166,838	56.0
Net assets:							
Invested in capital assets, net of related debt	514,514	500,342	508,047	14,172	2.8	(7,705)	(1.5)
Restricted	84,359	81,301	70,279	3,058	3.8	11,022	15.7
Unrestricted	87,843	66,273	48,710	21,570	32.5	17,563	36.1
	\$ 686,716	\$ 647,916	\$ 627,036	\$ 38,800	6.0%	\$ 20,880	3.3%

Loan to State of Hawaii

The State Director of Finance informed the Acting Comptroller (at that time) 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's general obligation bond project expenditures for 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. Accordingly, this temporary loan to the State was presented as a current restricted asset in the accompanying statement of net assets as of June 30, 2011. On December 7, 2011, the State completed a sale of \$800 million in general obligation bonds and used a portion of those bond proceeds to repay the Harbors Division the entire temporary loan amount.

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Management's Discussion and Analysis (continued)

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The non-interest bearing loan of unspent Harbor Revenue Bond proceeds to cover the State's general obligation bond project expenditures was permitted under Section 36-24, Hawaii Revised Statutes and was authorized under the *Certificate of the Director of Transportation Providing for the Issuance of 1997 State of Hawaii Harbor 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 at June 30, 2011 of unspent Harbor Revenue Bond proceeds from \$191.0 million to \$4.8 million.

Net Assets

The largest portion of the Harbors Division's net assets (74.9% and 77.2% at June 30, 2012 and 2011, 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 (12.3% and 12.6% at June 30, 2012 and 2011, respectively) represents bond reserve and other funds that are subject to external restrictions on how they may be used.

The unrestricted portion of the Harbors Division's net assets (12.8% and 10.2% at June 30, 2012 and 2011, 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 \$686.7 million at June 30, 2012, an increase in net assets of \$38.8 million or 6.0% from 2011. 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.

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Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012 and 2011, the Harbors Division had \$712.9 million and \$689.4 million, respectively invested in capital assets as shown in Table 3. There was a net increase (additions, deductions, and depreciation) of \$23.5 million in 2012 from the prior year, and a net increase in 2011 of \$11.6 million from 2010.

Table 3
Capital Assets
(In Thousands)

	As of June 30			2012 – 2011		2011 – 2010	
	2012	2011	2010	Increase (decrease)	% Change	Increase (decrease)	% Change
Land and land							
improvements	\$ 509,017	\$ 460,296	\$ 450,945	\$ 48,721	10.6%	\$ 9,351	2.1%
Wharves	258,798	258,792	258,679	6	0.0	113	0.0
Other improvements	70,610	70,057	68,900	553	0.8	1,157	1.7
Buildings	90,559	84,029	87,491	6,530	7.8	(3,462)	(4.0)
Equipment	19,755	17,318	16,026	2,437	14.1	1,292	8.1
Total at cost	948,739	890,492	882,041	58,247	6.5	8,451	1.0
Less accumulated							
depreciation	(264,027)	(243,756)	(226,979)	(20,271)	8.3	(16,777)	7.4
Subtotal	684,712	646,736	655,062	37,976	5.9	(8,326)	(1.3)
Construction in							
progress	28,213	42,702	22,751	(14,489)	(33.9)	19,951	87.7
Total capital assets, net	\$ 712,925	\$ 689,438	\$ 677,813	\$ 23,487	3.4%	\$ 11,625	1.7%

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Management's Discussion and Analysis (continued)

June 30, 2012 and 2011

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2012, included the following:

- \$32.2 million Construction of Pier 29 Container Yard, Honolulu Harbor, Oahu
- \$8.3 million Construction of Inter-Island Terminal Facility at Hilo Harbor Dredging
- \$2.8 million Reconstruction of Pier 2 Fendering System, Nawiliwili Harbor, Kauai
- \$2.2 million Pier 2 Passenger Terminal Enhancements, Honolulu Harbor, Oahu. Hawaii Port Infrastructure Expansion Program
- \$1.2 million Repair Piles and Waterline at Piers 24 to 26, Honolulu Harbor, Oahu
- \$1.2 million Perimeter Fencing Improvement, Honolulu Harbor and at Kalaeloa Barbers Point Harbor, Oahu
- \$1.1 million Electrical and Waterline Repairs at Piers 16 and 17, Honolulu Harbor, Oahu
- \$900,000 Access Road Widening for Hilo Harbor, Hawaii Port Infrastructure Expansion Program

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

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

- \$10.8 million for Construction of Hilo Pier 4 Container Yard, Hilo Hawaii
- \$23.0 million Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu

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- \$1.7 million Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu
- \$1.4 million Substructure and Waterline Repairs at Pier 35, Honolulu Harbor, Oahu
- \$1.0 million Various Statewide Harbor Security Improvements

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

- \$50.0 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"
- \$12.0 million Design and Construction of Improvements at Piers 12 and 15, Oahu under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"
- \$19.5 million Construction of Building and Yard Improvements of Pier 35, 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 under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"
- \$10 million Design and Construction of Pier 2 Terminal, Kawaihae Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"
- \$7.0 million Pier 1 Shed Modifications, Phase II, Hilo Harbor, Hawaii. Hawaii Port Infrastructure Expansion Program
- \$7.9 million Maritime Wireless Network System, Statewide
- \$5.0 million Pier 1 Shed Modifications, Hilo Harbor, Hawaii
- \$4.2 million Commuter Ferry System at Kaunakakai Harbor, Molokai
- \$3.5 million Various Harbor Security Improvements on Hawaii Island and on Kauai
- \$2.0 million Pier 2 Strengthening, Hilo Harbor, Hawaii. Hawaii Port Infrastructure Expansion Program
- \$1.5 million State Commercial Harbors Plans and Development Project

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- \$1.0 million Pier 31 Shed Demolition, Honolulu Harbor, Oahu. Hawaii Port Infrastructure Expansion Program
- \$500,000 Planning the Reconstruction and Improvement of Hana Wharf, Maui
- \$500,000 Design for Pier 4 Fencing and Gate Kawaihae Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"
- \$400,000 Development Plan of Kawaihae Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

The Harbors Division is committed under contracts awarded for capital improvement projects totaling approximately \$34.5 million as of June 30, 2012.

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

Indebtedness

Harbors System Revenue Bonds and Reimbursable General Obligation Bonds

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, 2012 and 2011, outstanding harbor system revenue bonds amounted to \$375.9 million and \$383.8 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 2012.

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, 2012 and 2011, outstanding reimbursable general obligation bonds amounted to \$34.6 million and \$36.2 million, respectively. There have been no issuances of reimbursable general obligation bonds to finance the harbor and waterfront improvements during fiscal years 2012 and 2011.

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

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Management's Discussion and Analysis (continued)

June 30, 2012 and 2011

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, 2012, 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+

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

Bond Covenants

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

The Harbors Division coverage ratio as of June 30, 2012 was 2.71 under the 1997 Certificate as compared to the ratio of 2.70 as of June 30, 2011.

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
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Statements of Net Assets
June 30, 2012 and 2011

	2012	2011		2012	2011
Assets			Liabilities		
Current assets:			Current liabilities (payable from current assets):		
Cash and cash equivalents (<i>Note 3</i>)	\$ 115,011,636	\$ 109,556,537	Accounts payable (<i>Note 18</i>)	\$ 5,221,589	\$ 7,825,304
Receivables, less allowance for doubtful accounts of \$3,610,800 in 2012 and \$3,215,100 in 2011	8,703,142	7,415,786	Accrued workers' compensation (<i>Notes 5 and 12</i>)	193,310	190,742
Notes receivable, less allowance for doubtful accounts of \$4,939,200 in 2012 and \$7,786,700 in 2011 (<i>Notes 14 and 15</i>)	-	-	Contracts payable, including retainages (<i>Note 18</i>)	1,422,883	1,004,693
Interest receivable	178,111	525,818	Accrued vacation (<i>Note 5</i>)	571,975	574,065
Due from the Federal Government	5,883,478	6,215,138	Due to Department of Budget and Finance	3,306,899	3,326,531
Due from other State agencies	897,261	359,681		<u>10,716,656</u>	<u>12,921,335</u>
Other receivables	14,503	15,769			
Materials and supplies, at cost	244,770	249,716	Current liabilities (payable from restricted assets):		
Prepaid insurance and others	843,145	824,814	Contracts payable, including retainages	4,791,584	4,340,024
	<u>131,776,046</u>	<u>125,163,259</u>	Revenue bonds payable, current maturities (<i>Notes 5, 6, and 7</i>)	11,841,601	7,670,698
Restricted assets:			General obligation bonds payable, current maturities (<i>Notes 5 and 8</i>)	1,678,482	1,609,315
Cash and cash equivalents (<i>Notes 3, 6, and 7</i>)	33,338,144	29,289,844	Accrued interest payable-revenue bonds	9,843,111	10,019,811
Loan to State of Hawaii (<i>Note 3</i>)	-	186,192,996	Security deposits	2,828,535	2,618,460
	<u>33,338,144</u>	<u>215,482,840</u>	Accrued interest payable-Airports Division (<i>Note 16</i>)	-	1,398,210
Total current assets	<u>165,114,190</u>	<u>340,646,099</u>	Due to the Airports Division (<i>Note 16</i>)	-	8,190,530
Noncurrent assets:				<u>30,983,313</u>	<u>35,847,048</u>
Cash and cash equivalents-restricted (<i>Notes 3 and 7</i>)	250,467,273	77,992,050	Total current liabilities	<u>41,699,969</u>	<u>48,768,383</u>
Capital assets (<i>Notes 4, 9, and 16</i>):			Long-term liabilities:		
Nondepreciable facilities:			Accrued workers' compensation (<i>Notes 5 and 12</i>)	710,318	679,888
Land	182,130,600	182,130,600	Other postretirement benefits payable (<i>Notes 5 and 11</i>)	8,278,885	6,288,888
Land improvements	76,086,739	76,086,739	Long-term debt, less current maturities:		
Other improvements	66,908	66,908	General obligation bonds payable (<i>Notes 5 and 8</i>)	32,933,472	34,611,954
	<u>258,284,247</u>	<u>258,284,247</u>	Revenue bonds payable, net (<i>Notes 5, 6, and 7</i>)	360,591,285	372,432,886
Depreciable facilities:			Accrued vacation (<i>Note 5</i>)	1,613,040	1,799,085
Land improvements	250,732,745	202,011,553	Total long-term liabilities	<u>404,127,000</u>	<u>415,812,701</u>
Wharves	258,798,133	258,791,742	Total liabilities	<u>445,826,969</u>	<u>464,581,084</u>
Other improvements	70,610,158	70,056,974			
Buildings	90,559,353	84,029,127	Net assets		
Equipment	19,754,461	17,318,065	Invested in capital assets, net of related debt	514,514,273	500,342,002
	690,454,850	632,207,461	Restricted-revenue bond requirements	22,352,691	22,352,691
Less accumulated depreciation	(264,027,228)	(243,755,831)	Restricted-for capital projects	62,005,816	58,948,076
	<u>426,427,622</u>	<u>388,451,630</u>	Unrestricted	87,843,381	66,273,041
Construction in progress	28,213,475	42,702,305	Total net assets	<u>686,716,161</u>	<u>647,915,810</u>
Total capital assets, net	<u>712,925,344</u>	<u>689,438,182</u>	Total liabilities and net assets	<u>\$ 1,132,543,130</u>	<u>\$ 1,112,496,894</u>
Unamortized bond issue costs	3,622,029	3,868,171			
Other assets	414,294	552,392			
Total noncurrent assets	<u>967,428,940</u>	<u>771,850,795</u>			
Total assets	<u>\$ 1,132,543,130</u>	<u>\$ 1,112,496,894</u>			

See accompanying notes to financial statements.

Harbors Division
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Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues, net (<i>Note 6</i>):		
Services	\$ 71,951,223	\$ 58,654,791
Rentals (<i>Notes 10 and 14</i>)	28,979,378	25,356,546
Others	2,946,213	1,908,042
	103,876,814	85,919,379
Operating expenses:		
Depreciation and amortization, including depreciation of capital assets of \$20,422,504 during 2012 and \$18,223,942 during 2011 (<i>Note 4</i>)	20,560,602	18,362,040
Harbor operations (<i>Note 13</i>)	17,650,531	13,954,410
Personnel services (<i>Note 11</i>)	14,452,663	14,814,835
General administration	3,545,347	2,040,387
State of Hawaii, surcharge for central service expenses (<i>Note 14</i>)	2,725,283	2,643,710
Fireboat operations (<i>Note 14</i>)	1,968,435	1,916,779
Maintenance	1,794,879	2,657,460
Department of Transportation, general administration expenses (<i>Note 14</i>)	1,032,804	1,539,065
	63,730,544	57,928,686
Operating income	40,146,270	27,990,693
Nonoperating revenues (expenses):		
Interest income (<i>Note 3</i>):		
Deposits in investment pool	800,808	2,098,049
Net increase (decrease) in the fair value of amounts held in State Treasury (<i>Note 3</i>)	(408,177)	3,791,542
Interest expense:		
Bonds (<i>Notes 6, 8, and 9</i>)	(20,616,950)	(18,385,467)
Airports Division (<i>Note 16</i>)	-	(1,398,210)
Other	(85,011)	(164,082)
Loss on disposal of capital assets	(3,147)	(2,123,406)
Amortization of bond discount, premium, issue costs, and loss on refunding	(390,445)	(355,624)
	(20,702,922)	(16,537,198)
Income before capital contributions	19,443,348	11,453,495
Capital contributions (<i>Note 4</i>)	19,357,003	9,426,073
Increase in net assets	38,800,351	20,879,568
Net assets as of beginning of year	647,915,810	627,036,242
Net assets as of end of year	\$ 686,716,161	\$ 647,915,810

See accompanying notes to financial statements.

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Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$ 102,728,526	\$ 88,907,173
Cash paid to suppliers	(31,259,253)	(33,105,531)
Cash paid to employees	(12,673,479)	(14,164,129)
Net cash provided by operating activities	58,795,794	41,637,513
Cash flows from capital and related financing activities:		
Payment to Airports Division	(8,190,530)	–
Proceeds received from (payment for) loan to State of Hawaii	186,192,996	(186,192,996)
Government grants received in aid of construction	16,170,604	9,426,073
Acquisition and construction of capital assets	(39,116,450)	(23,393,782)
Principal paid on bonds	(9,424,315)	(12,135,760)
Interest paid on bonds	(21,706,593)	(14,933,189)
Other interest paid	(1,483,222)	(125,471)
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)
Net premiums received on bonds	–	256,496
Bond issuance costs	–	(1,896,804)
Net cash provided by (used in) capital and related financing activities	122,442,490	(66,900,087)
Cash flows from investing activities:		
Interest received	1,148,515	3,463,918
Change in fair value of investments of pooled cash balances	(408,177)	3,791,542
Net cash provided by investing activities	740,338	7,255,460
Net increase (decrease) in cash and cash equivalents	181,978,622	(18,007,114)
Cash and cash equivalents at beginning of year	216,838,431	234,845,545
Cash and cash equivalents at end of year	\$ 398,817,053	\$ 216,838,431

(Continued on following page)

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Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 40,146,270	\$ 27,990,693
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	20,422,504	18,223,942
Other amortization	138,098	138,098
Provision for doubtful accounts	395,700	(2,921,984)
Changes in assets and liabilities:		
Receivables	(1,734,431)	(4,520,352)
Materials and supplies	4,946	(3,963)
Prepaid insurance and others	(18,331)	(800,731)
Payables	(2,584,265)	2,187,080
Accrued vacation	(188,135)	118,893
Accrued workers' compensation	32,998	199,579
Other postretirement benefits payable	1,989,997	1,570,370
Security deposits	210,075	96,951
Due to Department of Budget and Finance	(19,632)	(641,063)
Net cash provided by operating activities	\$ 58,795,794	\$ 41,637,513
 Supplemental disclosure of noncash capital and related financial activities:		
Amortization of bond discount, issue costs, and loss on refunding	\$ (390,445)	\$ (355,624)
Capital contributions	\$ 3,033,120	\$ 9,426,073
Acquisition of capital assets through payable to Airports Division	\$ —	\$ 8,190,530

See accompanying notes to financial statements.

**Harbors Division
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Notes to Financial Statements

June 30, 2012 and 2011

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 (GAAP) 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 using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and investments with original maturities of three months or less and amounts held in State Treasury.

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Notes to Financial Statements

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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.

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.

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Notes to Financial Statements

June 30, 2012 and 2011

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.

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.

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June 30, 2012 and 2011

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. 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.

Net Assets

Net assets are reported in three categories as follows:

Invested in capital assets, net of related debt – represents the Harbor's Division's investment in capital assets, less related indebtedness outstanding to acquire those capital assets.

Restricted – represents bond reserve funds that are subject to external restrictions on how they may be used.

Unrestricted – may be used to meet any of the Harbor's Division's ongoing operations or fund capital improvement projects.

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, 2012 and 2011 was approximately \$396,000 and \$582,000, 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 \$375,935,000 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.

The total principal and interest remaining to be paid on the bonds is approximately \$641,896,000. 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 \$27,770,000 and \$69,979,000 respectively, for the year ended June 30, 2012, and approximately \$22,990,000 and \$54,493,000, respectively, for the year ended June 30, 2011.

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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 GAAP 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.

Reclassifications

Certain reclassifications were made to the June 30, 2011 financial statement presentation in order to be in conformity with the June 30, 2012 presentation. There were no changes to the previously reported net assets.

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Amounts held in State Treasury	\$ 398,583,145	\$ 216,725,287
Petty cash and other	233,908	113,144
	<u>\$ 398,817,053</u>	<u>\$ 216,838,431</u>

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Notes to Financial Statements

June 30, 2012 and 2011

Such amounts are reflected in the statements of net assets at June 30, 2012 and 2011 as follows:

	2012	2011	
Current assets:			
Unrestricted	\$ 115,011,636	\$ 109,556,537	
Restricted	33,338,144	29,289,844	
Noncurrent assets:			
Restricted	250,467,273	77,992,050	
	\$ 398,817,053	\$ 216,838,431	

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.

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.

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Notes to Financial Statements

June 30, 2012 and 2011

The State Director of Finance is permitted under Section 36-24, Hawaii Revised Statutes, to make temporary non-interest bearing loans when there are monies 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. In 2011, 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 recorded a liability to the Harbors Division as of June 30, 2011 to account for this transaction. Accordingly, this temporary loan to the State was presented as a current restricted asset in the accompanying statements of net assets as of June 30, 2011. As of December 7, 2011, the State completed a sale of \$800 million in general obligation bonds and used a portion of those bond proceeds to repay the entire temporary loan from the Harbors Division.

The non-interest bearing loan of unspent Harbor Revenue Bond proceeds to cover the State's general obligation bond project expenditures was 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, 2012 and 2011, 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 \$398,583,145 and \$216,725,287, 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.

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 years 2012 and 2011, the Harbor Division's allocated share of the adjustments to increase (decrease) the carrying value of the State's auction rate securities to their fair value at June 30, 2012 and 2011 amounted to (\$408,177) and \$3,791,542, respectively, which is reflected as net increase (decrease) in the fair value of amounts held in State Treasury in the accompanying statements 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.

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Notes to Financial Statements

June 30, 2012 and 2011

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.

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.

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The Harbors Division's share of the State's investment pool, as provided in the FY 2011 CAFR of the State and summarized in the table below (amounts in thousands), was 22% at June 30, 2011:

	<u>Fair value</u>	<u>Maturity (in years)</u>		
		<u>Less than 1</u>	<u>1-5</u>	<u>>5</u>
Investment - Primary				
Government:				
Student loan auction rate securities	\$ 231,465	\$ -	\$ -	\$ 231,465
Certificates of deposit	169,148	169,148	-	-
U.S. government securities	382,808	298,590	76,562	7,656
Repurchase agreements	106,830	106,830	-	-
	<u>\$ 890,251</u>	<u>\$ 574,568</u>	<u>\$ 76,562</u>	<u>\$ 239,121</u>
Investment - Fiduciary Funds:				
Student loan auction rate securities	\$ 28,668	\$ -	\$ -	\$ 28,668
Certificates of deposit	20,950	20,950	-	-
U.S. government securities	47,412	36,982	9,482	948
Repurchase agreements	13,231	13,231	-	-
	<u>\$ 110,261</u>	<u>\$ 71,163</u>	<u>\$ 9,482</u>	<u>\$ 29,616</u>

Information relating to the State's investment pool at June 30, 2012 will be included in the CAFR of the State when issued.

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4. Capital Assets

Capital asset activity for the years ended June 30, 2012 and 2011 were as follows:

	Balance July 1 2011	Additions	Deductions	Balance June 30 2012
Nondepreciable assets:				
Land improvements (Note 16)	\$ 258,284,247	\$ -	\$ -	\$ 258,284,247
Depreciable assets:				
Land improvements	202,011,553	48,721,192	-	250,732,745
Wharves	258,791,742	6,391	-	258,798,133
Other improvements	70,056,974	553,184	-	70,610,158
Buildings	84,029,127	6,530,226	-	90,559,353
Equipment	17,318,065	2,590,650	(154,254)	19,754,461
Total at cost	<u>890,491,708</u>	<u>58,401,643</u>	<u>(154,254)</u>	<u>948,739,097</u>
Less accumulated depreciation for:				
Land improvements	56,092,662	8,035,011	-	64,127,673
Wharves	110,941,902	6,114,109	-	117,056,011
Other improvements	34,571,063	1,886,461	-	36,457,524
Buildings	29,601,842	3,760,173	-	33,362,015
Equipment	12,548,362	626,750	(151,107)	13,024,005
Total accumulated depreciation	<u>243,755,831</u>	<u>20,422,504</u>	<u>(151,107)</u>	<u>264,027,228</u>
Construction in progress	42,702,305	41,040,808	(55,529,638)	28,213,475
Total capital assets, net	<u>\$ 689,438,182</u>	<u>\$ 79,019,947</u>	<u>\$ (55,532,785)</u>	<u>\$ 712,925,344</u>

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	Balance July 1 2010	Additions	Deductions	Balance June 30 2011
Nondepreciable assets:				
Land 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>

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5. Long-Term Liabilities

The changes in long-term liabilities were as follows:

	Balance July 1 2011	Additions	Deductions	Balance June 30 2012	Current	Noncurrent
Accrued workers' compensation (Note 12)	\$ 870,630	\$ 293,542	\$ 260,544	\$ 903,628	\$ 193,310	\$ 710,318
Accrued vacation	2,373,150	846,408	1,034,543	2,185,015	571,975	1,613,040
Other post-retirement benefits payable (Note 11)	6,288,888	2,724,619	734,622	8,278,885	-	8,278,885
General obligation bonds (Note 8)	36,221,269	-	1,609,315	34,611,954	1,678,482	32,933,472
Revenue bonds (Note 6)	383,750,000	-	7,815,000	375,935,000	12,040,000	363,895,000
Less:						
Unamortized discount	(19,115)	-	(1,845)	(17,270)	(1,854)	(15,416)
Unamortized premium	2,095,519	-	346,748	1,748,771	292,660	1,456,111
Unamortized deferred loss on refunding	(5,722,820)	-	(489,205)	(5,233,615)	(489,205)	(4,744,410)
Revenue bonds, net	380,103,584	-	7,670,698	372,432,886	11,841,601	360,591,285
	<u>\$425,857,521</u>	<u>\$ 3,864,569</u>	<u>\$ 11,309,722</u>	<u>\$418,412,368</u>	<u>\$ 14,285,368</u>	<u>\$404,127,000</u>

	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
	<u>\$274,155,362</u>	<u>\$203,813,646</u>	<u>\$ 52,111,487</u>	<u>\$425,857,521</u>	<u>\$ 10,044,820</u>	<u>\$415,812,701</u>

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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 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 was 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.

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The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2012:

Year of Issue	Final Redemption Date	Interest Rate	Original Amount of Issue	Current		Total Current	Noncurrent	
				Principal Due July 1 2012	Principal Due January 1 2013			
2000	July 1, 2029	5.75%	\$ 79,405,000	\$ -	\$ -	\$ -	\$ 14,670,000	
2002	July 1, 2019	3.00-5.50%	24,420,000	605,000	-	605,000	9,405,000	
2004	January 1, 2024	2.50-6.00%	52,030,000	-	1,365,000	1,365,000	20,710,000	
2006	January 1, 2031	4.00-5.25%	96,570,000	-	2,645,000	2,645,000	80,420,000	
2007	July 1, 2027	4.25-5.50%	51,645,000	4,215,000	-	4,215,000	42,395,000	
2010	July 1, 2040	3.00-5.75%	201,390,000	3,210,000	-	3,210,000	196,295,000	
				\$505,460,000	\$ 8,030,000	\$ 4,010,000	12,040,000	363,895,000
Less:								
Unamortized discount							(1,854)	(15,416)
Unamortized premium							292,660	1,456,111
Unamortized deferred loss on refunding							(489,205)	(4,744,410)
							\$ 11,841,601	\$360,591,285

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

Year of Issue	Final Redemption Date	Interest Rate	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

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

Fiscal Year Ending June 30	Principal	Interest	Total
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	14,660,000	16,864,598	31,524,598
2018-2022	85,560,000	72,164,408	157,724,408
2023-2027	79,580,000	49,921,488	129,501,488
2028-2032	63,265,000	30,658,450	93,923,450
2033-2037	39,885,000	17,392,234	57,277,234
2038-2041	41,040,000	4,779,281	45,819,281
	<u>\$375,935,000</u>	<u>\$265,961,168</u>	<u>\$641,896,168</u>

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 \$21,883,111 as of June 30, 2012, for principal payments \$12,040,000 due on July 1, 2012 and January 1, 2013, and for interest payments \$9,843,111 due on July 1, 2012.

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

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- (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 \$27,769,623. Net revenues of the Public Undertaking, as defined by the 1997 Certificate amounted to \$75,130,621 or 2.71 times the minimum net revenue requirement for the fiscal year ended June 30, 2012, and \$61,992,150 or 2.70 times the minimum net revenue requirement for the fiscal year ended June 30, 2011.

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, 2012 and 2011.

(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, 2012 and 2011.

(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.

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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 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.

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(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%.

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, 2012 and 2011, outstanding reimbursable general obligation bonds amounted to approximately \$34,612,000 and \$36,221,000, respectively.

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

Fiscal Year Ending June 30	Principal	Interest	Total
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	2,022,854	1,357,966	3,380,820
2018-2022	11,710,379	5,193,232	16,903,611
2023-2027	12,773,004	1,986,124	14,759,128
2028	893,483	43,869	937,352
	<u>\$ 34,611,954</u>	<u>\$ 14,892,174</u>	<u>\$ 49,504,128</u>

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9. Interest Cost

Total combined interest cost incurred related to Revenue and General Obligation Bonds for the fiscal years ended June 30, 2012 and 2011 amounted to approximately \$21,530,000 and \$18,773,000, respectively. Of this amount, approximately \$913,000 and \$388,000 were capitalized during fiscal years ended June 30, 2012 and 2011, respectively, as part of the construction cost of harbor facilities.

10. Leasing Operations

The Harbors Division's leasing operations consist principally of the leasing of land, wharf, and building space under revocable permits and long-term leases. The revocable permits provide for tenancy on a month-to-month basis and are renewable annually at the option of the State. The long-term leases, which are classified as operating leases, expire in various years through 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, 2012.

Fiscal Year Ending June 30	Amount
2013	\$ 8,622,772
2014	8,469,704
2015	7,079,341
2016	6,837,042
2017	5,427,325
2018-2022	25,871,538
2023-2027	25,151,087
2028-2032	21,304,492
2033-2037	15,221,100
2038-2042	9,947,372
2043-2047	6,197,366
2048-2052	2,616,900
2053-2057	2,480,839
2058-2059	517,168
	<u>\$145,744,046</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.

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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 is available on the State's website at <http://ers.ehawaii.gov/>.

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 6.0% to the hybrid option if hired prior to July 1, 2012. Employees hired after June 30, 2012 contribute 8.0% of their salary 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, 2012, 2011, and 2010 were approximately \$1,384,000, \$1,367,000, and \$1,462,000 respectively. The contribution rate for each of the fiscal years ended June 30, 2012, 2011, and 2010 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 qualified employees and retirees.

Pursuant to Act 88, SLH 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 benefit plans as determined by HRS Chapter 89C or by way of applicable public sector collective bargaining agreements. The EUTF administers post-retirement healthcare benefits under a multiple employer defined benefit plan.

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.

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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 on or 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.

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.

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The table below summarizes the components of the annual OPEB cost that have been allocated to the Harbors Division by the State.

	June 30, 2012	June 30, 2011
Annual required contribution	\$ 2,725,000	\$ 2,220,000
Contribution made	(735,000)	(650,000)
Increase in net OPEB obligation	1,990,000	1,570,000
Net OPEB obligation, beginning of the year	6,289,000	4,719,000
Net OPEB obligation, end of the year	\$ 8,279,000	\$ 6,289,000
Actual contributions made as a percentage of ARC	27.0%	29.3%

Contributions are financed on a pay-as-you-go basis and the Harbors Division's contributions for the fiscal years ended June 30, 2012, 2011, and 2010 were approximately \$735,000, \$650,000, and \$639,000, respectively, which represents 27.0%, 29.3%, and 28.5%, 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.

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>.

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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 for policy years 2012 and 2011. The terrorism loss limit per occurrence is \$50,000,000 for policy years 2012 and 2011. The State has general liability insurance and crime insurance for State employees with a \$15,000,000 per occurrence or aggregate limit for policy years 2012 and 2011.

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.

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.

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In 2006, the Legislature enacted Act 178, SLH 2006 (Act 178), to re-establish a mechanism for OHA to receive a portion of the income and proceeds from the Ceded Lands, for native Hawaiians, under Article XII, Sections 4 and 6 of the Hawaii Constitution. Among other things, Act 178 directs state agencies that collect receipts from the Ceded Lands to annually transfer a total of \$15,100,000 in four equal quarterly installments to OHA, and directs the Governor to issue an executive order to establish procedures for this purpose. The Governor issued Executive Order No. 06-06 on September 20, 2006.

On April 11, 2012, the Governor signed Act 15, SLH 2012 (Act 15), into law. Act 15 conveys fee simple title to nine parcels of land located at Kakaako in Honolulu, valued at approximately \$200,000,000, to OHA, as of July 1, 2012. Act 15 also satisfies, resolves, discharges, releases, waives, extinguishes, prohibits, and bars, finally and completely, any and all claims, disputes, controversies, rights, actions, and causes of action, OHA (or parties claiming through OHA) has asserted or could have asserted to the income and proceeds from the Ceded Lands, under Article XII, Sections 4 and 6 of the Hawaii Constitution or any related statute or act, between November 7, 1978 (the date Article XII, Sections 4, 5, and 6 of the Hawaii Constitution were ratified) and June 30, 2012. Act 15 also withdrew any waiver of sovereign immunity the State may previously have made with respect to OHA's portion of receipts from Ceded Lands, and affirms that the State does not waive its sovereign immunity to permit a claim or suit to be brought to invalidate the act's operative provisions.

Until the Legislature alters the amount or establishes a different means for implementing Article XII, Sections 4 and 6 of the Hawaii Constitution, Act 178 serves as the means for satisfying the State's obligation to provide OHA with a portion of the income and proceeds from the Ceded Lands, for native Hawaiians.

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, 2012 and 2011 are approximately \$9,220,000 and \$7,717,000, 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 \$2,725,000 and \$2,644,000 for the fiscal years ended June 30, 2012 and 2011, respectively.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to approximately \$1,033,000 and \$1,539,000 for the fiscal years ended June 30, 2012 and 2011, respectively.

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The Harbors Division incurred costs of approximately \$1,968,000 and \$1,917,000 for fireboat operation services provided by the City and County of Honolulu during the fiscal years ended June 30, 2012 and 2011, respectively. Act 69, SLH 2012 was enacted to abolish statutory requirements as of January 1, 2013 to reimburse the City and County of Honolulu for the operation and maintenance of the fireboat and allow for broader flexibility in the management of fireboat operations by the Harbors Division. The Harbors Division is in the process of determining new arrangements to allow for more economical management of a marine response program.

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. ATDC was an agency attached to the Department of Business, Economic Development & Tourism (DBEDT).

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 FY2009-2011 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.

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In the 2011 legislative session, Act 152, SLH 2011 was enacted to remove ATDC from DBEDT and place the agency 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 DBEDT and the Deputy Director of Harbors. The Director of DBEDT chairs the board and the Deputy Director of Harbors serves as the acting Chief Executive Officer for the ATDC. Act 152 also provided that the unencumbered and unexpended fund balance in the Aloha Tower Fund shall lapse to the credit of the Harbor Special Fund to be used for operating expenses for the ATDC. DBEDT transferred the balance of approximately \$2.8 million to the Harbor Special Fund pursuant to Act 152. The \$2.8 million offset a portion of the \$7.8 million balance owed by ATDC to the Harbors Division for losses in revenue, obligations which were operating expenses for ATDC. In fiscal year 2012, as a result of this \$2.8 million transfer of funds, the Harbor's Division recorded \$2.8 million of additional rental revenue.

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 was 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.

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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 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 under this Amendment as of June 30, 2012 and 2011 was approximately \$4,923,000 and \$7,771,000, respectively, and is included in notes receivable, net of an allowance for doubtful accounts for the entire amount, in the accompanying statements of net assets. In addition, the Harbors Division recorded a \$450,000 accounts receivable from ATDC at June 30, 2012 for losses in revenues due under the Amendment.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest for the Marketplace to a new operator, 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 a loan. Due to the importance of the KMR site in serving maritime

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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). The Harbors Division paid Airports Division these amounts owed in September 2012. 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.

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, 2012 and 2011, 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 \$45,265,000 and \$61,607,000 at June 30, 2012 and 2011, 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, 2012 and 2011 were approximately \$5,073,000 and \$5,501,000, 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.

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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 the 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 \$2,340,000, of which \$617,000 remains accrued and unpaid as of June 30, 2012.

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

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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 \$151,000 has been paid as of June 30, 2012.

In July 2012, the EPA and the U.S. Department of Justice provided a Compliance Measures draft for the Harbors Division's review and comment. The Compliance Measures draft is intended to be the Injunctive Relief portion of the comprehensive Consent Decree between the United States, the State of Hawaii Department of Health and the Harbors Division, Department of Transportation. The Department of Transportation has provided its response on the draft Compliance Measures to the U.S. Department of Justice. Negotiations and further discussions are scheduled to commence in early December 2012.

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 December 21, 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

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Cash and Cash Equivalents of the Public Undertaking

June 30, 2012

Unrestricted cash and cash equivalents	<u>\$ 115,011,636</u>
Restricted cash and cash equivalents:	
For construction—revenue bonds	174,021,815
For revenue bond debt service payments	21,883,111
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	62,005,816
For security deposits	2,828,535
For risk management	713,449
	<u>283,805,417</u>
	<u>\$ 398,817,053</u>
With Director of Finance, State of Hawaii	\$ 398,583,145
On hand	233,908
	<u>\$ 398,817,053</u>

See accompanying independent auditors' report.

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Construction in Progress of the Public Undertaking

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Statewide:						
Various Commercial Harbor Security Improvements	\$ 1,025,643	\$ 19,522	\$ —	\$ 7,994	\$ 1,007,038	\$ 46,121
Maritime Identification Credentialing System	—	13,980	—	—	13,980	—
Interisland Ferry System	—	74	—	—	74	—
Environmental Engineering Service for Special Maintenance Program	1,125	—	—	—	—	1,125
Planning and Development of State Commercial Harbors	907,620	1,804	—	—	909,424	—
Consulting Engineer's Report on the Public Undertaking	99,787	—	—	—	63,393	36,394
Site Surveying Services for CIP projects Statewide	4,538	—	—	—	4,538	—
State Commercial Harbor Plan and Development Projects	1,042,815	406,867	5,565	58,063	—	1,513,310
Inter-Island Ferry Environmental Services and Planning Project	204,393	—	—	—	204,393	—
GIS for the State of Hawaii DOT Harbors Division	33,737	4,257	—	—	—	37,994
Construction Management and Inspection for Harbors Division Projects Statewide	2,689	—	—	—	—	2,689
Statewide Installation of Breasting Bollards	2,472	80,574	—	—	—	83,046
Harbor Security Improvements at Hilo and Kawaihae Harbors, Hawaii and Nawiliwili and Port Allen Harbors, Kauai	261	1,787	—	—	—	2,048
Statewide Maritime Wireless Network System	—	2,795	—	—	—	2,795
Subtotal carried forward	3,325,080	531,660	5,565	66,057	2,202,840	1,725,522

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 3,325,080	\$ 531,660	\$ 5,565	\$ 66,057	\$ 2,202,840	\$ 1,725,522
Honolulu Harbor:						
Reconstruction of Piers 52 and 53 Sand Island Container Yard, Honolulu Harbor, Oahu	—	78,294	—	—	78,294	—
Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu	—	1,956	—	—	1,956	—
Construction of Mooring Bollards at Piers 19-21, Honolulu Harbor	—	7,322	—	—	—	7,322
Planning Services for the Development of the New Kapalama Container Terminal, Honolulu	793,446	186	2,986	77	—	796,695
Phase 1 Environmental Assessment of the Former Kapalama Military Reservation Area, Honolulu	99,684	—	—	—	—	99,684
Construction of Miscellaneous Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu	—	11,907	—	—	11,907	—
Construction Management and Inspection for Various Pier 2 Cruise Terminal Improvements, Honolulu Harbor	1,104,208	—	—	—	1,104,208	—
Pier 29 Extension, Honolulu Harbor, Oahu	251,708	—	—	—	—	251,708
Condominium Property Regime Piers 30-38, Honolulu Harbor	149,038	—	—	—	—	149,038
Historic Documentation for the Development of the New Kapalama Container Terminal, Honolulu	134,255	—	—	—	134,255	—
Subtotal carried forward	5,857,419	631,325	8,551	66,134	3,533,460	3,029,969

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 5,857,419	\$ 631,325	\$ 8,551	\$ 66,134	\$ 3,533,460	\$ 3,029,969
Honolulu Harbor (continued):						
General Engineering Services for the Development of the New Kapalama Container Terminal, Honolulu	246,890	135,462	18,408	14,519	–	415,279
Methane Mitigation Piers 36-38, Lease Parcels 3, 4, 5, 6 7 and 8, Domestic Commercial Fishing Village, Honolulu Harbor	225,478	297,768	–	4,159	303,656	223,749
Barge Terminal Improvements at Piers 39 and 40, Honolulu Harbor	365,956	–	–	–	–	365,956
Construction of Pier 29 Container Yard, Honolulu Harbor	13,026,214	18,173,306	–	216,471	31,415,991	–
Port of Honolulu Passenger/Cargo Ship Facilities Improvements for Enhanced Harbor Security	–	2,362	–	–	2,362	–
Rehabilitation of Buildings and Yard Areas at Piers 34 and 35, Honolulu Harbor	89,270	–	5,340	137	–	94,747
Demolition of Structures at Kapalama Military Reservation	68,529	–	591	15	–	69,135
Environmental Assessment and Other Pre-Development Studies for Renovation of Facilities at Piers 34 and 35, Honolulu Harbor	341,899	74,700	4,169	18,669	–	439,437
Subtotal carried forward	20,221,655	19,314,923	37,059	320,104	35,255,469	4,638,272

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 20,221,655	\$ 19,314,923	\$ 37,059	\$ 320,104	\$ 35,255,469	\$ 4,638,272
Honolulu Harbor (continued):						
Development Plan for Relocation of Kapalama Military Tenants	330,502	(7,453)	1,183	15,675	–	339,907
Coordination for Inter-Island Ferry Lay Berth	35,754	–	–	–	35,754	–
Installation of Additional Cruise Ship Bollards at Pier 2, Honolulu Harbor	48,532	90,188	–	804	139,524	–
Construction of Pier 2 Cruise Terminal Phase 1, Honolulu Harbor, Oahu	–	(25,000)	–	–	(25,000)	–
Pier 2 Passenger Terminal Enhancements	115	4,766	–	–	4,766	115
Replacement of Fire Protection Lines at Piers 52-53, Honolulu Harbor, Oahu	–	25,337	–	–	–	25,337
Environmental and Development Services for Honolulu Harbor	–	–	130	3	–	133
Kapalama Container Terminal Wharf and Dredging Design, Honolulu Harbor, Oahu	–	–	2,156	56	–	2,212
Planning, Environmental and Development Services for Kalaheo Harbor, Oahu	–	–	323	8	–	331
The New Kapalama Container Terminal Yard Design, Honolulu Harbor, Hawaii	–	–	260	7	–	267
Clearing of Leased Lot at Kapalama Military Reservation, Honolulu Harbor, Oahu	–	1,917	–	–	–	1,917
Subtotal carried forward	20,636,558	19,404,678	41,111	336,657	35,410,513	5,008,491

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 20,636,558	\$ 19,404,678	\$ 41,111	\$ 336,657	\$ 35,410,513	\$ 5,008,491
Honolulu Harbor (continued):						
Ke'ehi Industrial Lots Waterline Replacement, Honolulu Harbor, Oahu	–	3,237	–	–	–	3,237
Pier 39 Shed Demolition and Yard Lighting Improvements, HMP Project, Honolulu Harbor	1,045,259	–	69,953	10,672	–	1,125,884
Design Specifications for the Relocation of UHSEOEST Marine Center from Piers 44-45 to Pier 35, HMP Project, Honolulu Harbor	146,750	–	331,018	9,110	–	486,878
Relocation of Harbors Tenant to Kapalama Military Reservation	957	–	137	4	–	1,098
Construction of Improvements Piers 12 and 15, HMP Project Honolulu Harbor	170,535	–	629,419	24,994	–	824,948
Subsidence Repairs and Finger Pier Demolition Pier 21, Honolulu Harbor SM Project to CIP	1,235,577	–	–	–	1,235,577	–
Pavement Repairs at Matson Terminals Container Yard, Honolulu Harbor SM Project to CIP	714,284	506,000	–	–	1,220,284	–
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 Harbor SM Project to CIP	212,046	–	–	–	212,046	–
Subtotal carried forward	24,905,726	19,913,915	1,071,638	381,437	38,822,180	7,450,536

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal carried forward	\$ 24,905,726	\$ 19,913,915	\$ 1,071,638	\$ 381,437	\$ 38,822,180	\$ 7,450,536
Honolulu Harbor (continued):						
Structural Repairs at Piers 9 through 11, Honolulu Harbor SM Project to CIP	1,510,366	—	—	—	1,510,366	—
Pavement Repairs at Piers 39 and 40, Honolulu Harbor SM Project to CIP	257,067	—	—	—	257,067	—
Repairs to Waterline at Piers 13 and 14, Honolulu Harbor SM Project to CIP	138,728	—	—	—	138,728	—
Repairs to Vent Line and Air Conditioning at Aloha Tower, Honolulu Harbor SM Project to CIP	161,280	—	—	—	—	161,280
Repairs to Bulkhead at Piers 27, Honolulu Harbor SM Project to CIP	250,051	—	—	—	250,051	—
Structural Repairs at Warehouse #6, Honolulu Harbor SM Project to CIP	180,502	—	—	—	180,502	—
Pavement Repairs at Horizon Lines Container Yard, Honolulu Harbor SM Project to CIP	281,370	215,462	—	—	281,370	215,462
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	25,588	—	—	109,767	—
Repair Pavement at Piers 39-40 PH II Honolulu Harbor SM Project to CIP	339,366	—	—	—	339,366	—
Subtotal carried forward	28,947,885	20,154,965	1,071,638	381,437	42,728,647	7,827,278

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 28,947,885	\$ 20,154,965	\$ 1,071,638	\$ 381,437	\$ 42,728,647	\$ 7,827,278
Honolulu Harbor (continued):						
Repair Windows at Harbors Administration Building SM Project to CIP	80,745	142,654	—	—	223,399	—
Fender Repairs at Pier 39 Honolulu Harbor SM Project to CIP	58,398	142,371	—	—	200,769	—
Electrical and Waterline Repairs at Piers 16-17 Honolulu Harbor SM Project to CIP	1,014,911	120,019	—	—	1,134,930	—
Repair Piles and Waterline at Piers 24-26 Honolulu Harbor SM Project to CIP	27,666	1,186,575	—	—	—	1,214,241
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	15,200	—	—	—	27,854
Repair Roof at Pier 31 Shed, Honolulu Harbor	—	42,750	—	—	—	42,750
Repair Piles and Deck Hatches at Piers 52 and 53 Honolulu Harbor	—	233,828	—	—	—	233,828
Expansion Joint Repairs at Piers 39 and 40 Honolulu Harbor	—	108,869	—	—	—	108,869
Substructure Repairs at Piers 1 and 2, Honolulu Harbor	—	510,000	—	—	—	510,000
Substructure Repairs at Pier 21, Honolulu Harbor	—	432,951	—	—	—	432,951
Subtotal carried forward	30,244,775	23,090,182	1,071,638	381,437	44,390,261	10,397,771

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 30,244,775	\$ 23,090,182	\$ 1,071,638	\$ 381,437	\$ 44,390,261	\$ 10,397,771
Honolulu Harbor (continued):						
Roof Repairs at Pier 10 Shed, Honolulu Harbor	–	140,899	–	–	–	140,899
Substructure Repairs at Pier 10, Honolulu Harbor	–	703,589	–	–	–	703,589
Pavement Repairs at Fort Armstrong, Honolulu Harbor	–	443,109	–	–	–	443,109
Substructure and Waterline Repairs at Pier 35, Honolulu Harbor	–	31,663	–	–	–	31,663
Substructure and Fender Repairs at Pier 1, Honolulu Harbor	–	11,571	–	–	–	11,571
Substructure and Waterline Repairs at Piers 30-33, Honolulu Harbor	–	13,559	–	–	–	13,559
Removations at Pier 35, Honolulu Harbor	–	503,826	–	–	–	503,826
Kalaeloa Barbers Point Harbor:						
Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbor, Oahu	859,476	367,626	–	42,629	1,269,731	–
Access & Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu	341,467	683,125	–	31,809	–	1,056,401
Embankment repairs Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	560,018	–	–	–	560,018	–
Repair Fender system Pier P-1, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	161,539	–	–	–	161,539	–
Subtotal carried forward	32,167,275	25,989,149	1,071,638	455,875	46,381,549	13,302,388

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 32,167,275	\$ 25,989,149	\$ 1,071,638	\$ 455,875	\$ 46,381,549	\$ 13,302,388
Kalaeloa Barbers Point Harbor (continued):						
Repair Bullrails at Pier 7, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	145,045	—	—	—	145,045	—
Embankment repairs , Phase 3, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	9,871	137,880	—	—	—	147,751
Repair Water Hatches at Piers 5 and 6, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	—	4,588	—	—	—	4,588
KBPH Modifications Study	—	2,909	—	—	2,909	—
Kahului Harbor:						
Pier 1 Makai Comfort Station and Waterline Improvements, Kahului Harbor, Maui	—	28,299	—	—	28,299	—
Port of Kahului Passenger/Cargo Ship Facilities Improvised Explosive Devices (IEDS) Threat Prevention Program	318,529	697,205	—	12,680	1,028,414	—
Kahului Harbor Reconnaissance Study	30	—	—	—	—	30
Planning and Environmental Services for Hana Harbor, Maui, Hawaii	—	—	430	—	—	430
Replace Perimeter road fence and new fence at Piers 1-2, Kahului Harbor, Maui	—	13,458	—	—	—	13,458
Replacement of Pier 1 Bullrails, Kahului Harbor, Maui	—	6,452	—	—	—	6,452
Subtotal carried forward	32,640,750	26,879,940	1,072,068	468,555	47,586,216	13,475,097

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 32,640,750	\$ 26,879,940	\$ 1,072,068	\$ 468,555	\$ 47,586,216	\$ 13,475,097
Kahului Harbor (continued):						
Repaint light poles, Piers 2 and 3, Kahului Harbor, Maui SM Project to CIP	93,054	—	—	—	93,054	—
Pavement Repairs Perimeter Road Kahului Harbor, Maui SM Project to CIP	188,146	—	—	—	188,146	—
Pavement Repairs Pier 1 Container Yard, Kahului Harbor, Maui SM Project to CIP	250,846	—	—	—	250,846	—
Repaint Light Poles at Pier 1, Kahului Harbor, Maui SM Project to CIP	15,555	—	—	—	—	15,555
Substructure Repairs at Piers 2 and E, Kahului Harbor, Maui SM Project to CIP	—	454,896	—	—	—	454,896
Hana Harbor:						
Hana Harbor Reconnaissance Study	30	—	—	—	—	30
Expansion Hana Harbor, Maui, HMP project	234,163	—	(5,326)	4,650	—	233,487
Kaunalapau Harbor:						
Repair fender system, Kaunalapau Harbor, Lanai SM Project to CIP	125,700	—	—	—	125,700	—
Repair rubber tire fenders Kaunalapau Harbor, Lanai SM Project to CIP	175,057	—	—	—	175,057	—
Subtotal carried forward	33,723,301	27,334,836	1,066,742	473,205	48,419,019	14,179,065

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 33,723,301	\$ 27,334,836	\$ 1,066,742	\$ 473,205	\$ 48,419,019	\$ 14,179,065
Kaunakakai Harbor:						
Ferry System Improvements at Kaunakakai Harbor, Molokai Maui	189,516	11,394	—	—	—	200,910
Substructure Repairs at Kaunakakai Harbor (Phase 5), Molokai SM to CIP	378,113	263,000	—	—	378,113	263,000
Repair Pavement at Cargo Yard, Kaunakakai Harbor, Molokai SM Project to CIP	151,510	—	—	—	151,510	—
Hilo Harbor:						
Pier 1 Shed Modifications, Hilo Harbor, Hawaii	212,263	374,880	—	19,558	—	606,701
Construction of Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii	2,096,368	148,068	7,063,941	268,423	—	9,576,800
Hilo Harbor Reconnaissance Study	—	1,215	—	—	—	1,215
Design for Pier 1 Shed Roofing and Siding Improvements, Hilo Harbor, Hawaii	202,746	44,763	—	—	—	247,509
Additional Fencing at Pier 1 and Radio Bay Access Road, Hilo Harbor, Hawaii	48,298	74,524	—	1,364	—	124,186
Modification of Traffic Pattern at Hilo Harbor	31,886	7,365	—	—	39,251	—
Pier 1 Shed Modifications, Phase II, Hilo Harbor	—	4,607	—	—	—	4,607
Design for Pier 4 Inter-island Cargo Terminal HMP Project Hilo Harbor, Hawaii	313,367	—	237,745	18,511	—	569,623
Subtotal carried forward	37,347,368	28,264,652	8,368,428	781,061	48,987,893	25,773,616

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 37,347,368	\$ 28,264,652	\$ 8,368,428	\$ 781,061	\$ 48,987,893	\$ 25,773,616
Hilo Harbor (continued):						
Pier 4 inter-island Cargo Terminal, Improvements to Kumau Street Entrance HMP project Hilo Harbor, Hawaii	162,029	—	66,297	9,851	—	238,177
Substructure Repairs at Piers 2 and 3, Hilo Harbor Hawaii SM Project to CIP	251,965	—	—	—	251,965	—
Repave Apron at Pier 1 Hilo Harbor, Hawaii SM Project to CIP	108,753	—	—	—	108,753	—
Installation of Fencing at Pier 1 Hilo Harbor, Hawaii SM Project to CIP	115,978	—	—	—	115,978	—
Repair to Water Tower, Hilo Harbor, Hawaii SM Project to CIP	156,793	—	—	—	156,793	—
Repair Sewer Pump Station at Hilo Harbor, Hawaii SM Project to CIP	20,526	242,888	—	—	—	263,414
Substructure Repairs at Piers 1 and 2, Hilo Harbor, Hawaii SM Project to CIP	14,511	358,097	—	—	—	372,608
Kawaihae Harbor:						
Kawaihae Harbor Modifications Feasibility Study	574,226	—	—	—	574,226	—
Repair Marginal Wharf, Kawaihae Harbor	—	379	—	—	—	379
Subtotal carried forward	38,752,149	28,866,016	8,434,725	790,912	50,195,608	26,648,194

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 38,752,149	\$ 28,866,016	\$ 8,434,725	\$ 790,912	\$ 50,195,608	\$ 26,648,194
Kawaihae Harbor (continued):						
Improvements for New Terminal Cargo Facilities at Kawaihae Harbor	225,391	–	66,130	13,018	–	304,539
Design for Pier 2 Terminal Improvements at Kawaihae Harbor	117,939	–	474,420	15,813	–	608,172
Pavement Repairs Pier 2 Kawaihae Harbor, Hawaii SM Project to CIP	124,657	–	–	–	124,657	–
Substructure Repairs at Pier 2A Kawaihae Harbor, Hawaii SM Project to CIP	649,959	–	–	–	649,959	–
Substructure Repairs at Pier 2A Kawaihae Harbor, Hawaii SM Project to CIP	692,699	–	–	–	692,699	–
Repair Culvert at Kawaihae Harbor, Hawaii SM Project to CIP	–	154,999	–	–	–	154,999
Nawiliwili Harbor:						
Nawiliwili Harbor Channel Modifications Project	263,231	–	–	–	–	263,231
Reconstruction of Pier 2 Fendering System, Nawiliwili Harbor, Kauai	1,297,568	1,702,553	–	93,200	3,093,321	–
Replace Fence Fabric and Gate Along Wilcox Road, Kanoa Street and Wa'apa Road, Nawiliwili Harbor, Kauai	–	10,878	–	–	–	10,878
Subtotal carried forward	42,123,593	30,734,446	8,975,275	912,943	54,756,244	27,990,013

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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2012

Project	Balance July 1 2011	Additions by Source of Funds			Transfer Out	Balance June 30 2012
		Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest		
Subtotal brought forward	\$ 42,123,593	\$ 30,734,446	\$ 8,975,275	\$ 912,943	\$ 54,756,244	\$ 27,990,013
Nawiliwili Harbor (continued):						
Pavement Repairs at Jetty Road, Nawiliwili Harbor, Kauai SM Project to CIP	148,247	—	—	—	148,247	—
Repairs to Waterline at Pier 2, Nawiliwili Harbor, Kauai SM Project to CIP	136,953	—	—	—	136,953	—
Pavement Repairs, Waapa Road, Nawiliwili Harbor, Kauai SM Project to CIP	100,000	—	—	—	100,000	—
Repair Fence at Pier 3, Nawiliwili Harbor, Kauai SM Project to CIP	—	98,952	—	—	—	98,952
Port Allen Harbor:						
Repairs to Roof at Pier Shed, Port Allen Harbor, Kauai SM Project to CIP	193,512	—	—	—	193,512	—
Installation of Lift Station and Force Main, Port Allen Harbor, Kauai	—	8,795	—	—	—	8,795
Substructure Repairs at Port Allen Harbor, Kauai SM Project to CIP	—	153,000	—	—	153,000	—
Other	—	157,397	—	—	41,682	115,715
Total	\$ 42,702,305	\$ 31,152,590	\$ 8,975,275	\$ 912,943	\$ 55,529,638	\$ 28,213,475

See accompanying independent auditors' report.

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Revenue Bonds of the Public Undertaking

Year Ended June 30, 2012

	Final Redemption Date	Interest Rate	Original Amount of Issue	Balance at June 30, 2012		
				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	605,000	9,405,000	10,010,000
Issue of 2004	January 1, 2024	2.50-6.00%	52,030,000	1,365,000	20,710,000	22,075,000
Issue of 2006	January 1, 2031	4.00-5.25%	96,570,000	2,645,000	80,420,000	83,065,000
Issue of 2007	July 1, 2027	4.25-5.50%	51,645,000	4,215,000	42,395,000	46,610,000
Issue of 2010	July 1, 2040	3.00-5.75%	201,390,000	3,210,000	196,295,000	199,505,000
			<u>\$ 505,460,000</u>	<u>\$ 12,040,000</u>	<u>\$ 363,895,000</u>	<u>\$ 375,935,000</u>

See accompanying independent auditors' report.

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Income from Operations Before Depreciation

Year Ended June 30, 2012

	District										Total
	Oahu		Hawaii			Maui		Kauai			
	Statewide	Honolulu	Kalaheo	Hilo	Kawaihae	Kahului	Kaunakakai	Kaunapali	Nawiliwili	Port Allen	
Operating revenues, net											
Services:											
Wharfage	\$ -	\$ 45,921,487	\$ 1,870,061	\$ 1,817,294	\$ 1,966,856	\$ 3,696,512	\$ 177,457	\$ 100,155	\$ 1,556,106	\$ -	\$ 57,105,928
Pax debark/embark	-	2,126,375	-	1,760,705	3,755	632,995	2,055	2,665	1,208,308	-	5,736,858
Dockage	-	3,439,368	621,752	297,954	42,166	426,168	45,740	5,793	417,505	3,217	5,299,663
Demurrage	-	1,152,111	-	149,132	138,919	27,114	-	-	2,536	-	1,469,812
Port entry	-	689,318	108,750	87,698	33,757	82,005	12,582	5,858	68,730	2,832	1,091,530
Mooring charges	-	458,241	1,898	10,911	52,348	290	2,474	-	55	442,362	968,579
Cleaning charges	-	227,909	-	-	-	319	-	-	990	-	229,218
Other services	-	29,209	209	128	6,432	1,827	3	100	2,263	9,464	49,635
Total services	-	54,044,018	2,602,670	4,123,822	2,244,233	4,867,230	240,311	114,571	3,256,493	457,875	71,951,223
Rentals:											
Wharf space and land	-	17,651,167	1,391,741	88,281	252,075	214,080	14,691	300	479,467	231,814	20,323,616
Storage	-	2,551,823	41,235	328,911	372,982	333,996	2,353	-	269,744	19,663	3,920,707
Automobile parking	-	1,040,812	8,302	79,642	7,702	92,415	1,695	153	79,857	12,971	1,323,549
Pipeline water	-	70,441	5,655	30,254	383	38,357	-	-	52,403	-	197,493
Other pipeline	-	721,084	1,062,053	510,520	30,812	624,549	12,326	9,116	116,199	127,354	3,214,013
Total rentals	-	22,035,327	2,508,986	1,037,608	663,954	1,303,397	31,065	9,569	997,670	391,802	28,979,378
Others:											
Sale of utilities	-	718,647	109,302	57,219	1,257	86,913	-	-	84,505	7,788	1,065,631
Miscellaneous	-	1,241,531	4,606	65,040	1,402	60,214	27,651	-	473,138	7,000	1,880,582
Total others	-	1,960,178	113,908	122,259	2,659	147,127	27,651	-	557,643	14,788	2,946,213
Total operating revenues	-	78,039,523	5,225,564	5,283,689	2,910,846	6,317,754	299,027	124,140	4,811,806	864,465	103,876,814
Operating expenses before depreciation and amortization:											
Harbor operations	10,203,565	4,857,959	509,807	442,132	787,042	307,930	14,564	-	490,272	37,260	17,650,531
Personnel services	5,892,892	5,867,963	165,633	630,891	40,169	908,029	42,567	-	849,700	54,819	14,452,663
General administration	3,243,752	36,529	485	31,051	2,655	204,668	230	-	23,317	2,660	3,545,347
State of Hawaii, surcharge for central service expenses	2,725,283	-	-	-	-	-	-	-	-	-	2,725,283
Fireboat operations	-	1,968,435	-	-	-	-	-	-	-	-	1,968,435
Maintenance	477,706	729,910	442,272	(587,449)	7,514	255,239	118,006	34,501	278,424	38,756	1,794,879
Department of Transportation, general administration expenses	1,032,804	-	-	-	-	-	-	-	-	-	1,032,804
Subtotal	23,576,002	13,460,796	1,118,197	516,625	837,380	1,675,866	175,367	34,501	1,641,713	133,495	43,169,942
Allocation of statewide expenses (1)	(23,576,002)	17,711,940	1,186,000	1,199,192	660,649	1,433,885	67,868	28,175	1,092,093	196,200	-
Total operating expenses before depreciation and amortization	-	31,172,736	2,304,197	1,715,817	1,498,029	3,109,751	243,235	62,676	2,733,806	329,695	43,169,942
Income from operations before depreciation and amortization	\$ -	\$ 46,866,787	\$ 2,921,367	\$ 3,567,872	\$ 1,412,817	\$ 3,208,003	\$ 55,792	\$ 61,464	\$ 2,078,000	\$ 534,770	\$ 60,706,872

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

Year Ended June 30, 2012

Net revenues, as defined by the 1997 Certificate:	
Operating income before depreciation and amortization	\$ 60,706,872
Add:	
Interest income	800,808
State of Hawaii, surcharge for central service expenses	2,725,283
Cash available in the harbor reserve and contingency account	10,897,658
	<u>\$ 75,130,621</u>
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments	<u>\$ 27,769,623</u>
Ratio of net revenues to harbor revenue bond debt service requirements	<u>2.71</u>

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Accounts Receivable Aging

June 30, 2012

	Total	Current	30 Days	60 Days	90 Days
Accounts receivable	\$ 12,313,973	\$ 8,859,729	\$ 54,287	\$ 90,808	\$ 3,309,149