

Office of the Auditor
465 S. King Street
Rm. 500
Honolulu, HI 96813
Ph. (808) 587-0800

Jan K. Yamane
Acting State Auditor
State of Hawai'i

Constitutional Mandate

The Office of the Auditor, pursuant to Article VII, Section 10 of the Hawai'i State Constitution, is required to conduct post-audits of the transactions, accounts, program and performance of departments, offices and agencies of the State and its political subdivisions, and to certify to the accuracy of all financial statements issued by the respective accounting officers.

Financial Audit of the Department of Transportation, Harbors Division

Financial Statements, Fiscal Year Ended June 30, 2012

The primary purpose of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Transportation, Harbors Division (DOT-Harbors) as of and for the fiscal year ended June 30, 2012, and to comply with the requirements of federal OMB Circular A-133, which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs LLC.

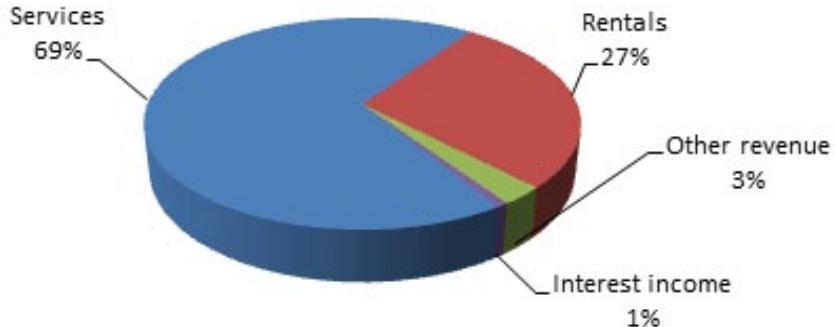
About the Division

DOT-Harbors is responsible for the statewide system of commercial harbors, consisting of ten harbors on six islands. The system plays a vital role in Hawai'i's economy as the ports serve as the primary means for goods to enter and exit the state. Hawai'i imports approximately 80 percent of what it consumes, the majority of which enters the state through the commercial harbors system. DOT-Harbors imposes and collects rates and charges for use of the harbors system to generate revenues to fund operating expenses. Capital improvements are funded by DOT-Harbors' revenues and the issuance of harbor system revenue bonds.

Financial Highlights

For the fiscal year ending June 30, 2012, DOT-Harbors reported total revenues of approximately \$105 million and total expenses of \$85 million, resulting in income of \$19 million. Included in total expenses was \$21 million in bond interest. Total assets of DOT-Harbors exceeded total liabilities by \$687 million. Of this amount, \$88 million is unrestricted and may be used to meet ongoing expenses and obligations.

Sources of Revenue



DOT-Harbors Division's Sources of Revenue	Revenue (in millions)
Services	\$71.9
Rentals	\$29.0
Other revenue	\$2.9
Interest income	\$0.8
Total	\$104.6



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Auditors' Opinions

Financial Statements:	+/-
Unmodified opinion	
Federal Compliance:	+/-
Unmodified opinion	

Issues of Concern

Material Weaknesses	0
Significant Deficiencies	3

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<http://auditor.hawaii.gov/>

Total assets was comprised of cash of \$399 million, net capital assets of \$713 million, and \$21 million in other assets. Included in long-term liabilities were \$35 million in reimbursable general obligation bonds and \$376 million in revenue bonds. As of June 30, 2012, the underlying ratings for harbor system revenue bonds were as follows:

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

DOT-Harbors has numerous capital projects ongoing statewide; construction in progress totaled \$28 million at the end of the fiscal year.

Auditors' Opinions

DOT-Harbors received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The division received an unmodified opinion on its compliance with major federal programs.

Findings

There were no reported deficiencies in internal control over financial reporting considered to be material weaknesses. However, there were three findings considered significant deficiencies in internal control over compliance.

Material Weaknesses:

- None identified.

Significant Deficiencies:

- Contractors were not checked for suspension or debarment;
- American Recovery and Reinvestment Act (ARRA) jobs reports were not reviewed;
- ARRA progress and close out reports were not submitted.

For further details on the findings, including the department's corrective action plan, visit our website at: http://files.hawaii.gov/auditor/Reports/2012_Audit/DOT_Harbors_FS2012.pdf