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, 2013 and 2012

(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, 2013 and 2012

Table of Contents

Independent Auditors' Report	1
Management's Discussion and Analysis	4
Financial Statements:	
Statements of Net Position	16
Statements of Revenues, Expenses, and Changes in Net Position	17
Statements of Cash Flows	18
Notes to Financial Statements	20
Supplemental Information:	
Schedule 1 – Cash and Cash Equivalents of the Public Undertaking	53
Schedule 2 – Construction in Progress of the Public Undertaking	54
Schedule 3 – Revenue Bonds of the Public Undertaking	67
Schedule 4 – Income from Operations Before Depreciation	68
Schedule 5 – Harbor Revenue Bonds 1997 Certificate – Minimum Net Revenue Requirement of the Public Undertaking	69

KOBAYASHI, KANETOKU, DOI, LUM & YASUDA CPAs LLC

745 Fort Street, Suite 1915 • Honolulu, Hawaii 96813 • Tel (808) 521-3962 • Fax (808) 531-3217
410 Kilani Avenue, Suite 202 • Wahiawa, Hawaii 96786 • Tel (808) 622-4188 • Fax (808) 621-2438

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the Harbors Division, Department of Transportation, State of Hawaii (the Harbors Division), an enterprise fund of the State of Hawaii, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Harbors Division as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15 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 audits 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information included in Schedules 1 through 5 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 relates 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 audits 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, 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* in considering the Harbors Division's internal control over financial reporting and compliance.

Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs LLC

Honolulu, Hawaii
December 20, 2013

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

Management's Discussion and Analysis

June 30, 2013 and 2012

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, 2013 and 2012. 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 position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board.

Financial Highlights

- The Harbors Division's net position at June 30, 2013 and 2012 amounted to $714.3 million and $686.7 million, respectively. Net position increased by $27.6 million in fiscal year 2013, an increase of 4.0%. Net position increased by $38.8 million in fiscal year 2012, an increase of 6.0%.

- Operating income amounted to $42.7 million in fiscal year 2013, an increase of $2.6 million or 6.4% as compared to 2012. Operating income amounted to $40.1 million in fiscal year 2012, an increase of $12.1 million or 43.4% as compared to 2011.

A summary of operations and changes in net assets for the fiscal years ended June 30, 2013, 2012, and 2011 follows:

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

	Year Ended June 30			2013 – 2012		2012 – 2011	
	2013	2012	2011	Increase (decrease)	% Change	Increase (decrease)	% Change
Operating revenues	$ 112,671	$ 103,877	$ 85,920	$ 8,794	8.5%	$ 17,957	20.9%
Nonoperating revenues	867	801	2,098	66	8.2	(1,297)	(61.8)
Total revenues	113,538	104,678	88,018	8,860	8.5	16,660	18.9
Depreciation and amortization	22,751	20,561	18,362	2,190	10.7	2,199	12.0
Other operating expenses	47,202	43,170	39,567	4,032	9.3	3,603	9.1
Nonoperating expenses	20,597	21,096	22,427	(499)	(2.4)	(1,331)	(5.9)
Total expenses	90,550	84,827	80,356	5,723	6.7	4,471	5.6
Net increase (decrease) in the fair value of amounts held in State Treasury	1,102	(408)	3,792	1,510	370.1	(4,200)	(110.8)
Income before capital contributions and transfers	24,090	19,443	11,454	4,647	23.9	7,989	69.7
Capital contributions	4,115	19,357	9,426	(15,242)	(78.7)	9,931	105.4
Transfers out	(610)	-	-	(610)	(100.0)	-	-
Increase in net position	$ 27,595	$ 38,800	$ 20,880	$ (11,205)	(28.9%)	$ 17,920	85.8%

Operating Revenues

Total operating revenues for fiscal year 2013 were $112.7 million compared to $103.9 million for fiscal year 2012. Operating revenues consist primarily of service revenues and rental revenues, which accounted for 73.3% and 24.8% respectively, in fiscal year 2013, and 69.3% and 27.9%, respectively, in fiscal year 2012, 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 2013 and 2012 were $82.6 million and $72.0 million, respectively.

Service revenues for fiscal year 2013 increased $10.6 million or 14.8% as compared to fiscal year 2012. Wharfage revenue from cargo movements increased by $9.8 million from $57.1 million in fiscal year 2012 to $66.9 million in fiscal year 2013 due primarily to increases in tariff rates that took effect on July 1, 2012 of 10% that were applied to the rates then in effect. In addition, dockage fees decreased by $0.2 million from $5.3 million in fiscal year 2012 to $5.1 million in fiscal year 2013 and passenger fees increased by $900,000 from $5.7 million in fiscal year 2012 to $6.6 million in fiscal year 2013.

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.

During fiscal year 2013, approximately 1.25 million passengers (inbound and outbound) passed through the harbors as compared to 1.15 million passengers in fiscal year 2012 and 1.20 million passengers in fiscal year 2011.

Passenger fee revenue increased by $900,000 or 16.0%, from $5.7 million in 2012 to $6.6 million in fiscal year 2013, due primarily to changes in the passenger fee rate structure that took effect on July 1, 2012. Effective July 1, 2012, the embark and debark fee increased to $5.50 per passenger. An administrative interpretation was made by the Deputy Director, Harbors Division, effective July 1, 2012, that for cruiseships with an itinerary calling on multiple commercial harbors, passengers aboard foreign-flagged vessels would be assessed a $5.50 per passenger embark fee and a $5.50 per passenger debark fee at the first commercial harbor port call, and a $5.50 in-transit fee at each commercial harbor port call thereafter.

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.

Passenger counts for fiscal year 2013 increased by approximately 8.6% due to changes in how passengers were counted under the new rate structure in effect on July 1, 2012. In 2012, passenger counts decreased by approximately 4.2% due to changes in how passengers were counted under the new rate structure in effect on July 1, 2012. Approximately 50% of the fiscal year 2013 passengers were in-transit while 52% of the fiscal year 2012 passengers were in-transit. The year-over-year percentage decrease is a result of a change in the rate structure.

Rental Revenues

Rental revenues in fiscal years 2013 and 2012 were $27.9 million and $29.0 million, respectively. The decrease in rental revenue of $1.1 million or 3.7% from fiscal year 2012 to fiscal year 2013 was due primarily to a $2.8 million transfer of funds from the Department of Business, Economic Development & Tourism (DBEDT) 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 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 the increase in wharf space and land rents of $2.9 million as a result of the transfer of approximately $2.8 million from DBEDT on behalf of the Aloha Tower Special Fund in fiscal year 2012 pursuant to Act 152, SLH 2011 (see Note 14).

Operating Expenses

Operating expenses, excluding depreciation and amortization, for fiscal years 2013 and 2012 amounted to $47.2 million and $43.2 million, respectively. The increase in operating expenses from fiscal year 2012 to fiscal year 2013 of $4.0 million or 9.4% was due primarily to increases in harbor operations costs of approximately $542,000, personnel services costs of approximately $1.7 million, general administration expenses of approximately $935,000, and maintenance expenses of approximately $668,000.

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 general administration expenses of approximately $1.5 million, offset by decreases in maintenance expenses of approximately $863,000, in personal services costs of approximately $362,000, and Department of Transportation, general administration expenses of approximately, $506,000.

Harbor operations costs for fiscal year 2013 increased by approximately $542,000 as compared to fiscal year 2012 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 and an increase in harbor security costs of approximately $634,000. These increases in harbor operations costs for fiscal year 2013 were partially offset as in fiscal year 2012, the Harbors Division recorded project cost writedowns related to asset impairment of approximately $1.7 million for potential projects that were considered to be no longer viable. In fiscal year 2012, harbor operations expenses 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 ($459,000 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.

Personnel services costs for fiscal year 2013 increased by approximately $1.7 million as compared to fiscal year 2012 due primarily to increases in wages and employee benefits costs paid of approximately $1.2 million and the postretirement liability of approximately $721,000, offset by a decrease in workers compensation expense of approximately $226,000. In fiscal year 2012, personnel services decreased by approximately $362,000 as compared to fiscal year 2011 due primarily to decreases in wages paid of approximately $705,000 and workers compensation expense of approximately $77,000.

General administration costs for fiscal year 2013 increased by approximately $935,000 as compared to fiscal year 2012 due primarily to the accrual of an additional provision of $1.3 million for judgments and claims recorded for fiscal year 2013 that were offset by the payment made in fiscal year 2012 of $257,000 to the U.S. Army Corps of Engineers for the Harbors Division's share of a GIS study. In fiscal year 2012, general administration costs 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 2013 increased by $568,000 as compared to fiscal year 2012 due to expected higher earnings resulting from the tariff increases of 10% implemented July 1, 2012 against which the 5% State assessment is applied. In fiscal year 2012, central services costs 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.

Fireboat operations expenses for fiscal year 2013 decreased by $476,000 as compared to fiscal year 2012 primarily because of an accrual of estimated operating costs for the three-month period ended June 30, 2012 recorded for fiscal year 2012 that exceeded the actual costs incurred by approximately $150,000, with the remaining decrease in these expenses resulting from lower operating costs incurred for fiscal year 2013. In fiscal year 2012, fireboat operations expenses 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.

Harbor maintenance expenses for fiscal year 2013 increased by approximately $668,000 as compared to fiscal year 2012 due primarily to increases in maintenance costs of $505,000 and special maintenance costs of $163,000 expended for maintenance projects that did not extend the service life of harbor assets. Most of the special maintenance project expenditures for fiscal year 2013 extended the service life of the related harbor assets and were capitalized. In fiscal year 2012, harbor maintenance expenses 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.

Transfers to Other Department

During the fiscal year ended June 30, 2013, the Harbors Division transferred $610,632 to the Department of Land and Natural Resources, State of Hawaii, to design and construct commuter ferry improvements at Molokai's Kaunakakai Harbor.

A summary of the Harbors Division's net assets at June 30, 2013, 2012, and 2011 are shown below:

Table 2
Condensed Statements of Net Position
(In Thousands)

	As of June 30			2013 – 2012		2012 – 2011	
	2013	2012	2011	Increase (decrease)	% Change	Increase (decrease)	% Change
Current and other assets	$ 410,346	$ 419,618	$ 423,059	$ (9,272)	(2.2%)	$ (3,441)	(0.8%)
Capital assets	739,453	712,925	689,438	26,528	3.7	23,487	3.4
Total assets	1,149,799	1,132,543	1,112,497	17,256	1.5	20,046	1.8
Long-term liabilities	392,411	404,127	415,813	(11,716)	(2.9)	(11,686)	(2.8)
Current liabilities	43,077	41,700	48,768	1,377	3.3	(7,068)	(14.5)
Total liabilities	435,488	445,827	464,581	(10,339)	(2.3)	(18,754)	(4.0)
Net position:							
Net investment in capital assets	517,419	514,514	500,342	2,905	0.6	14,172	2.8
Restricted	93,625	84,359	81,301	9,266	11.0	3,058	3.8
Unrestricted	103,267	87,843	66,273	15,424	17.6	21,570	32.5
Total net position	$ 714,311	$ 686,716	$ 647,916	$ 27,595	4.0%	$ 38,800	6.0%

Net Position

The largest portion of the Harbors Division's net position (72.4% and 74.9% at June 30, 2013 and 2012, respectively), net investment in capital assets, 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 net 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 position (13.1% and 12.3% at June 30, 2013 and 2012, 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 position (14.5% and 12.8% at June 30, 2013 and 2012, respectively) may be used to meet any of the Harbors Division's ongoing operations or to fund capital improvement projects.

The change in net position is an indicator of whether the overall fiscal condition of the Harbors Division improved or worsened during the fiscal year. The change in net position may serve over time as a useful indicator of the Harbor Division's financial position. Net position or the amount of total assets that exceeds liabilities amounted to $714.3 million at June 30, 2013, an increase in net position of $27.6 million or 4.0% from 2012. Net position or the amount of total assets that exceeds liabilities amounted to $686.7 million at June 30, 2012, an increase in net position of $38.8 million or 6.0% from 2011.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2013 and 2012, the Harbors Division had $739.5 million and $712.9 million, respectively invested in capital assets as shown in Table 3. There was a net increase (additions, deductions, and depreciation) of $26.5 million in 2013 from the prior year, and a net increase in 2012 of $23.5 million from 2011.

Table 3
Capital Assets
(In Thousands)

	As of June 30			2013 – 2012		2012 – 2011	
	2013	**2012**	**2011**	**Increase (decrease)**	**% Change**	**Increase (decrease)**	**% Change**
Land and land improvements	$ 530,509	$ 509,017	$ 460,296	$ 21,492	4.2%	$ 48,721	10.6%
Wharves	269,047	258,798	258,792	10,249	4.0	6	0.0
Other improvements	73,946	70,610	70,057	3,336	4.7	553	0.8
Buildings	92,251	90,559	84,029	1,692	1.9	6,530	7.8
Equipment	21,775	19,755	17,318	2,020	10.2	2,437	14.1
Total at cost	987,528	948,739	890,492	38,789	4.1	58,247	6.5
Less accumulated depreciation	(286,551)	(264,027)	(243,756)	(22,524)	8.5	(20,271)	8.3
	700,977	684,712	646,736	16,265	2.4	37,976	5.9
Construction in progress	38,476	28,213	42,702	10,263	36.4	(14,489)	(33.9)
Total capital assets, net	$ 739,453	$ 712,925	$ 689,438	$ 26,528	3.7%	$ 23,487	3.4%

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2013, included the following:

- $20.7 million Purchase of Land at Kalaeloa Harbor, Oahu
- $3.5 million Various Harbor Security Improvements on Hawaii Island, and on Kauai, Including the Reconstruction of Fences on Hawaii Island, on Maui and on Kauai
- $1.7 million Substructure Repairs at Piers 1, 2, 10 and 21, Honolulu Harbor, Oahu
- $1.5 million Purchase of Various Security Equipment
- $1.3 million Waterline and Piles Repairs at Piers 24-26 , Honolulu Harbor, Oahu

- $1.0 million Substructure Repairs at Piers 1, 2 and 3, Kahului Harbor, Maui

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

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

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

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"

- $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"

- $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"

- $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"

- $7.9 million Maritime Wireless Network System, Statewide

- $7.0 million Pier 1 Shed Modifications, Phase II, Hilo Harbor, Hawaii. Hawaii Port Infrastructure Expansion Program

- $5.0 million Pier 1 Shed Modifications, Hilo Harbor, Hawaii

- $4.2 million Commuter Ferry System at Kaunakakai Harbor, Molokai

- $2.0 million Pier 2 Strengthening, Hilo Harbor, Hawaii.

- $1.5 million State Commercial Harbors Plans and Development Project

- $1.0 million Pier 31 Shed Demolition, Honolulu Harbor, Oahu.

The Harbors Division is committed under contracts awarded for capital improvement projects totaling approximately $48.2 million as of June 30, 2013.

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, 2013 and 2012, outstanding harbor system revenue bonds amounted to $363.9 million and $375.9 million, respectively.

On August 2, 2013, the Harbors Division issued $23,615,000 Series A of 2013 Revenue Refunding Bonds through a private placement transaction with Capital One Public Financing LLC. These bonds refunded the Series A of 2000 and Series B of 2002 Revenue Bonds.

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, 2013 and 2012, outstanding reimbursable general obligation bonds amounted to $32.9 million and $34.6 million, respectively. There have been no issuances of reimbursable general obligation bonds to finance the harbor and waterfront improvements during fiscal years 2013 and 2012.

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

Credit Rating and Bond Insurance

All harbor system revenue bonds issued since 1997 through June 30, 2010 have been issued with bond insurance. A new reserve policy replaced all previously issued surety bonds and the portion of the reserve requirement allocable to the Series B of 2010 Revenue Bonds. The surety policy was amended effective August 2, 2013 to include the reserve requirement allocable to the Series A of 2013 Revenue Refunding Bonds. The Series A of 2010 Revenue Bonds are secured by a cash deposit of $11.5 million. As of June 30, 2013, 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, 2013 was 2.55 under the 1997 Certificate as compared to the ratio of 2.71 as of June 30, 2012.

Request for Information

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

Harbors Division

Department of Transportation

State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statements of Net Position

June 30, 2013 and 2012

Assets	**2013**	**2012**
Current assets:		
Cash and cash equivalents *(Note 3)*	$ 133,217,857	$ 115,011,636
Receivables, less allowance for doubtful accounts of $3,716,000 in 2013 and $3,610,800 in 2012	9,125,570	8,703,142
Notes receivable, less allowance for doubtful accounts of $4,164,150 in 2013 and $4,939,200 in 2012 *(Notes 14 and 15)*	–	–
Interest receivable	176,366	178,111
Due from the Federal government	935,608	5,883,478
Due from other State agencies	412,323	897,261
Other receivables	16,712	14,503
Materials and supplies, at cost	61,678	244,770
Prepaid insurance and others	843,145	843,145
	144,789,259	131,776,046
Restricted assets:		
Cash and cash equivalents *(Notes 3, 6, and 7)*	33,659,027	33,338,144
Total current assets	178,448,286	165,114,190
Noncurrent assets:		
Cash and cash equivalents−restricted *(Notes 3 and 7)*	228,218,722	250,467,273
Capital assets *(Notes 4, 9, and 16):*		
Nondepreciable facilities:		
Land	202,830,600	182,130,600
Land improvements	76,086,739	76,086,739
Other improvements	66,908	66,908
	278,984,247	258,284,247
Depreciable facilities:		
Land improvements	251,525,051	250,732,745
Wharves	269,047,228	258,798,133
Other improvements	73,945,682	70,610,158
Buildings	92,250,714	90,559,353
Equipment	21,775,483	19,754,461
	708,544,158	690,454,850
Less accumulated depreciation	(286,550,931)	(264,027,228)
	421,993,227	426,427,622
Construction in progress	38,475,562	28,213,475
Total capital assets, net	739,453,036	712,925,344
Unamortized bond issue costs	3,403,285	3,622,029
Other assets	276,196	414,294
Total noncurrent assets	971,351,239	967,428,940
Total assets	$ 1,149,799,525	$ 1,132,543,130

Liabilities	**2013**	**2012**
Current liabilities (payable from current assets):		
Accounts payable *(Note 18)*	$ 9,011,521	$ 5,221,589
Accrued workers' compensation *(Notes 5 and 12)*	133,807	193,310
Contracts payable, including retainages *(Note 18)*	185,116	1,422,883
Accrued vacation *(Note 5)*	616,787	571,975
Due to Department of Budget and Finance	3,385,274	3,306,899
	13,332,505	10,716,656
Current liabilities (payable from restricted assets):		
Contracts payable, including retainages	3,090,092	4,791,584
Revenue bonds payable, current maturities *(Notes 5, 6, and 7)*	12,522,536	11,841,601
General obligation bonds payable, current maturities (*Notes 5 and 8*)	1,757,503	1,678,482
Accrued interest payable-revenue bonds	9,548,993	9,843,111
Security deposits	2,825,457	2,828,535
	29,744,581	30,983,313
Total current liabilities	43,077,086	41,699,969
Long-term liabilities:		
Accrued workers' compensation *(Notes 5 and 12)*	681,038	710,318
Other postretirement benefits payable *(Notes 5 and 11)*	10,989,674	8,278,885
Long-term debt, less current maturities:		
Revenue bonds payable, net *(Notes 5, 6, and 7)*	347,993,666	360,591,285
General obligation bonds payable *(Notes 5 and 8)*	31,175,970	32,933,472
Accrued vacation *(Note 5)*	1,571,178	1,613,040
Total long-term liabilities	392,411,526	404,127,000
Total liabilities	435,488,612	445,826,969
Net Position		
Net investment in capital assets	517,418,709	514,514,273
Restricted-revenue bond requirements	33,659,027	22,352,691
Restricted−for capital projects	59,966,434	62,005,816
Unrestricted	103,266,743	87,843,381
Total net position	714,310,913	686,716,161
Total liabilities and net position	$ 1,149,799,525	$ 1,132,543,130

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues, net *(Note 6)*:		
Services	$ 82,621,790	$ 71,951,223
Rentals *(Notes 10 and 14)*	27,922,446	28,979,378
Others	2,126,295	2,946,213
	112,670,531	103,876,814
Operating expenses:		
Depreciation and amortization, including depreciation of capital assets of $22,612,573 during 2013 and $20,422,504 during 2012 *(Note 4)*	22,750,671	20,560,602
Harbor operations *(Note 13)*	18,192,431	17,650,531
Personnel services *(Note 11)*	16,157,634	14,452,663
General administration	4,480,978	3,545,347
State of Hawaii, surcharge for central service expenses *(Note 14)*	3,293,227	2,725,283
Maintenance	2,462,386	1,794,879
Fireboat operations *(Note 14)*	1,492,160	1,968,435
Department of Transportation, general administration expenses *(Note 14)*	1,123,618	1,032,804
	69,953,105	63,730,544
Operating income	42,717,426	40,146,270
Nonoperating revenues (expenses):		
Interest income *(Note 3):*		
Deposits in investment pool	867,495	800,808
Net increase (decrease) in the fair value of amounts held in State Treasury *(Note 3)*	1,102,327	(408,177)
Interest expense:		
Bonds *(Notes 6, 8, and 9)*	(20,249,732)	(20,616,950)
Other	–	(85,011)
Loss on disposal of capital assets	(5,375)	(3,147)
Amortization of bond discount, premium, issue costs, and loss on refunding	(342,060)	(390,445)
	(18,627,345)	(20,702,922)
Income before capital contributions and transfers	24,090,081	19,443,348
Capital contributions *(Note 4)*	4,115,303	19,357,003
Transfers out *(Note 14)*	(610,632)	–
Increase in net position	27,594,752	38,800,351
Net position as of beginning of year	686,716,161	647,915,810
Net position as of end of year	$ 714,310,913	$ 686,716,161

See accompanying notes to financial statements.

Harbors Division

Department of Transportation

State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 112,321,191	$ 102,728,526
Cash paid to suppliers	(27,385,613)	(31,259,253)
Cash paid to employees	(13,724,964)	(12,673,479)
Net cash provided by operating activities	71,210,614	58,795,794
Cash flows used in noncapital financing activities:		
Transfers to other department	(610,632)	–
Cash flows from capital and related financing activities:		
Government grants received in aid of construction	9,548,111	16,170,604
Acquisition and construction of capital assets	(50,951,861)	(39,116,450)
Principal paid on bonds	(13,718,481)	(9,424,315)
Interest paid on bonds	(21,170,765)	(21,706,593)
Payment to Airports Division	–	(8,190,530)
Repayments received from loan to State of Hawaii	–	186,192,996
Other interest paid	–	(1,483,222)
Net cash provided by (used in) capital and related financing activities	(76,292,996)	122,442,490
Cash flows from investing activities:		
Interest received	869,240	1,148,515
Change in fair value of investments of pooled cash balances	1,102,327	(408,177)
Net cash provided by investing activities	1,971,567	740,338
Net increase (decrease) in cash and cash equivalents	(3,721,447)	181,978,622
Cash and cash equivalents at beginning of year	398,817,053	216,838,431
Cash and cash equivalents at end of year	$ 395,095,606	$ 398,817,053

(Continued on following page)

Harbors Division

Department of Transportation

State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 42,717,426	$ 40,146,270
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	22,612,573	20,422,504
Other amortization	138,098	138,098
Provision for doubtful accounts	105,200	395,700
Changes in assets and liabilities:		
Receivables	(529,837)	(1,734,431)
Materials and supplies	183,092	4,946
Prepaid insurance and others	–	(18,331)
Payables	3,283,809	(2,584,265)
Accrued vacation	2,950	(188,135)
Accrued workers' compensation	(88,783)	32,998
Other postretirement benefits payable	2,710,789	1,989,997
Security deposits	(3,078)	210,075
Due to Department of Budget and Finance	78,375	(19,632)
Net cash provided by operating activities	$ 71,210,614	$ 58,795,794

	2013	2012
Supplemental disclosure of noncash capital and related financial activities:		
Amortization of bond discount, issue costs, and loss on refunding	$ (342,060)	$ (390,445)
Capital contributions	$ –	$ 3,033,120

See accompanying notes to financial statements.

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 (GAAP).

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 GAAP as applicable to enterprise activities of governmental units, as promulgated by the Governmental Accounting Standards Board (GASB). The Harbors Division applies all applicable GASB Statements and Interpretations.

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.

Restricted Assets

Restricted assets consist 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, 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 (expenses).

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

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

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

Bond Issue Costs

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

Unamortized Debt Premium (Discount)

Debt premium (discount) is amortized using the effective interest rate method over the term of the related debt, and the unamortized balance is reflected as an offset against the related long-term liabilities in the statements of net position. 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.

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 Position

Net position is reported in three categories as follows:

> *Net investment in capital assets* - 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, 2013 and 2012 was approximately $105,000 and $396,000, respectively. Operating revenues also exclude 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 $363,895,000 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 $610,365,000. 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 $31,531,000 and $75,858,000 respectively, for the year ended June 30, 2013, and approximately $27,770,000 and $69,979,000, respectively, for the year ended June 30, 2012.

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 (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 position, after nonoperating revenues (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. Significant estimates include the valuation of receivables, the estimated useful lives of capital assets, and reserves for postemployment benefits and claims and judgments. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Amounts held in State Treasury	$ 393,251,972	$ 398,583,145
Petty cash and other	1,843,634	233,908
	$ 395,095,606	$ 398,817,053

Such amounts are reflected in the statements of net position at June 30, 2013 and 2012 as follows:

	2013	2012
Current assets:		
Unrestricted	$ 133,217,857	$ 115,011,636
Restricted	33,659,027	33,338,144
Noncurrent assets:		
Restricted	228,218,722	250,467,273
	$ 395,095,606	$ 398,817,053

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.

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. 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, 2013 and 2012, 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 $393,251,972 and $398,583,145, respectively.

At June 30, 2012, a portion of the State’s investment pool was invested in auction rate securities collateralized by student loans issued by the federal government. The State settled its position in these auction rate securities during the year ended June 30, 2013. During fiscal year 2013, the Harbors Division’s allocated share of the adjustment to record the gain on the final settlement amounted to $1,102,327. During fiscal year 2012, the Harbors Division’s allocated share of the adjustment to decrease the carrying value of the State’s auction rate securities to their fair value amounted to ($408,177). This 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 position.

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

Concentration of Credit Risk

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

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

The Harbors Division's share of the State's investment pool, as provided in the fiscal year 2012 CAFR of the State and summarized in the table below (amounts in thousands), was 39% at June 30, 2012:

		Maturity (in years)		
	Fair value	**Less than 1**	**1-5**	**>5**
Investment - Primary Government:				
Student loan auction rate securities	$ 225,936	$ -	$ -	$ 225,936
Certificates of deposit	263,592	263,592	-	-
U.S. government securities	348,319	168,642	133,821	45,856
Repurchase agreements	103,554	85,950	17,604	-
	$ 941,401	$ 518,184	$ 151,425	$ 271,792
Investment - Fiduciary Funds:				
Student loan auction rate securities	$ 22,208	$ -	$ -	$ 22,208
Certificates of deposit	25,909	25,909	-	-
U.S. government securities	34,237	16,576	13,153	4,508
Repurchase agreements	10,178	8,448	1,730	-
	$ 92,532	$ 50,933	$ 14,883	$ 26,716

Information relating to the State's investment pool at June 30, 2013 will be included in the CAFR of the State when issued.

4. Capital Assets

Capital asset activity for the years ended June 30, 2013 and 2012 were as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Nondepreciable assets:				
Land improvements	$ 258,284,247	$ 20,700,000	$ -	$ 278,984,247
Depreciable assets:				
Land improvements	250,732,745	792,306	-	251,525,051
Wharves	258,798,133	10,249,095	-	269,047,228
Other improvements	70,610,158	3,345,415	(9,891)	73,945,682
Buildings	90,559,353	1,691,361	-	92,250,714
Equipment	19,754,461	2,115,268	(94,246)	21,775,483
Total at cost	948,739,097	38,893,445	(104,137)	987,528,405
Less accumulated depreciation for:				
Land improvements	64,127,673	9,053,720	-	73,181,393
Wharves	117,056,011	7,699,767	-	124,755,778
Other improvements	36,457,524	1,941,786	-	38,399,310
Buildings	33,362,015	2,370,788	-	35,732,803
Equipment	13,024,005	1,546,512	(88,870)	14,481,647
Total accumulated depreciation	264,027,228	22,612,573	(88,870)	286,550,931
Construction in progress	28,213,475	26,820,981	(16,558,894)	38,475,562
Total capital assets, net	$ 712,925,344	$ 43,101,853	$ (16,574,161)	$ 739,453,036

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

Notes to Financial Statements

June 30, 2013 and 2012

	July 1, 2011	Additions	Deductions	June 30, 2012
Nondepreciable assets:				
Land improvements	$ 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	890,491,708	58,401,643	(154,254)	948,739,097
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	243,755,831	20,422,504	(151,107)	264,027,228
Construction in progress	42,702,305	41,040,808	(55,529,638)	28,213,475
Total capital assets, net	$ 689,438,182	$ 79,019,947	$ (55,532,785)	$ 712,925,344

5. Long-Term Liabilities

The changes in long-term liabilities were as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Current	Noncurrent
Accrued workers' compensation (Note 12)	$ 903,628	$ 105,617	$ 194,400	$ 814,845	$ 133,807	$ 681,038
Accrued vacation	2,185,015	886,117	883,167	2,187,965	616,787	1,571,178
Other postretirement benefits payable (Note 11)	8,278,885	3,730,780	1,019,991	10,989,674	-	10,989,674
General obligation bonds (Note 8)	34,611,954	-	1,678,481	32,933,473	1,757,503	31,175,970
Revenue bonds (Note 6)	375,935,000	-	12,040,000	363,895,000	12,655,000	351,240,000
Less:						
Unamortized discount	(17,270)	-	(1,855)	(15,415)	(1,857)	(13,558)
Unamortized premium	1,748,771	-	367,744	1,381,027	358,598	1,022,429
Unamortized deferred loss on refunding	(5,233,615)	-	(489,205)	(4,744,410)	(489,205)	(4,255,205)
Revenue bonds, net	372,432,886	-	11,916,684	360,516,202	12,522,536	347,993,666
	$ 418,412,368	$ 4,722,514	$ 15,692,723	$ 407,442,159	$ 15,030,633	$ 392,411,526

	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 postretirement 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
	$ 425,857,521	$ 3,864,569	$ 11,309,722	$ 418,412,368	$ 14,285,368	$ 404,127,000

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.

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2013:

				Current			
Year of Issue	**Final Redemption Date**	**Interest Rate**	**Original Amount of Issue**	**Principal Due July 1, 2013**	**Principal Due January 1, 2014**	**Total Current**	**Noncurrent**
2000	July 1, 2029	5.75%	$ 79,405,000	$ -	$ -	$ -	$ 14,670,000
2002	July 1, 2019	3.00-5.50%	24,420,000	610,000	-	610,000	8,795,000
2004	January 1, 2024	2.50-6.00%	52,030,000	-	1,430,000	1,430,000	19,280,000
2006	January 1, 2031	4.00-5.25%	96,570,000	-	2,780,000	2,780,000	77,640,000
2007	July 1, 2027	4.25-5.50%	51,645,000	4,475,000	-	4,475,000	37,920,000
2010	July 1, 2040	3.00-5.75%	201,390,000	3,360,000	-	3,360,000	192,935,000
			$505,460,000	$ 8,445,000	$ 4,210,000	12,655,000	351,240,000
Less:							
Unamortized discount						(1,857)	(13,558)
Unamortized premium						358,598	1,022,429
Unamortized deferred loss on refunding						(489,205)	(4,255,205)
						$12,522,536	$347,993,666

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: Principal Due July 1, 2012	Current: Principal Due January 1, 2013	Total Current	Noncurrent
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

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

Fiscal Year Ending June 30	Principal	Interest	Total
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	15,415,000	16,127,391	31,542,391
2019-2023	90,030,000	67,696,154	157,726,154
2024-2028	75,980,000	45,835,225	121,815,225
2029-2033	54,090,000	27,433,363	81,523,363
2034-2038	42,185,000	15,088,291	57,273,291
2039-2041	31,630,000	2,735,437	34,365,437
	$363,895,000	$246,470,183	$610,365,183

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, proceding the date on which the payments are due. Accordingly, the debt service requirements include reserves of $22,203,994 as of June 30, 2013, for principal payments $12,655,000 due on July 1, 2013 and January 1, 2014, and for interest payments $9,548,994 due on July 1, 2013.

7. Harbor Revenue Bond Requirements

1997 Certificate – Minimum Net Revenue Requirement

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

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

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

The harbor revenue bond debt service requirements, including minimum sinking fund payments during the current fiscal year, computed in accordance with Section 6.03 of the 1997 Certificate totaled $31,530,985. Net revenues of the Public Undertaking, as defined by the 1997 Certificate amounted to $80,526,477 or 2.55 times the minimum net revenue requirement for the fiscal year ended June 30, 2013, and $75,130,621 or 2.71 times the minimum net revenue requirement for the fiscal year ended June 30, 2012.

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, 2013 and 2012.

(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, 2013 and 2012.

(3) Harbor Debt Service Reserve Account

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

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

In lieu of the credit of monies to the harbor debt service reserve account, the Harbors Division may cause to be so credited a surety bond or an insurance policy payable to the Harbors Division for the benefit of the holders of the Revenue Bonds of a series or a letter of credit in an amount equal to the difference between the reserve requirement and the amounts then on credit to the harbor debt service reserve account. In the event a surety bond, insurance policy, or letter of credit is secured to satisfy that portion of the 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.

(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 outstanding Series DI, Series DJ, and Series DK General Obligation bonds range from 3.25% 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, 2013 and 2012, outstanding reimbursable general obligation bonds amounted to approximately $32,933,000 and $34,612,000, respectively.

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

Fiscal Year Ending June 30	Principal	Interest	Total
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	2,122,232	1,258,386	3,380,618
2019-2023	12,288,801	4,614,871	16,903,672
2024-2028	10,965,834	1,349,968	12,315,802
	$ 32,933,473	$ 13,189,824	$ 46,123,297

9. Interest Cost

Total combined interest cost incurred related to Revenue and General Obligation Bonds for the fiscal years ended June 30, 2013 and 2012 amounted to approximately $20,877,000 and $21,530,000, respectively. Of this amount, approximately $627,000 and $913,000 were capitalized during fiscal years ended June 30, 2013 and 2012, 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, 2013.

Fiscal Year Ending June 30	Amount
2014	$ 9,425,000
2015	8,068,000
2016	7,829,000
2017	6,407,000
2018	6,119,000
2019-2023	27,906,000
2024-2028	25,886,000
2029-2033	22,159,000
2034-2038	15,129,000
2039-2043	11,061,000
2044-2048	6,050,000
2049-2053	2,617,000
2054-2058	2,388,000
2059	87,000
	$151,131,000

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

11. Retirement Benefits

Employees' Retirement System of the State of Hawaii

All eligible employees of the Harbors Division are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (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 with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The benefit multiplier decreased by 0.25% for the new hybrid and contributory plan members hired after June 30, 2012. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For new members hired after June 30, 2012, the AFC is based on five highest paid years of service, excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For new members hired after June 30, 2012, the postretirement annuity increase was decreased to 1.5% per year.

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

Contributory Plan

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. The Harbors Division may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years of credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

New employees in the contributory plan hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Hybrid Plan

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving 5 years of credited service. The Harbors Division may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

New employees in the hybrid plan hired after June 30, 2012 are required to contribute 8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service, or at age 60 with 30 years of credited service, or may retire at age 55 with 20 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Noncontributory Plan

Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Harbors Division is required to make all contributions for these members. Employees may retire with full benefits at age 62 and 10 years of credited service or age 55 and 30 years of credited service or age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. Employers contributed 15.75% for police officers and firefighters, and 13.75% for all other employees. These rates increased, as of July 1, 2008, to 19.70% for police officers and firefighters and 15.00% for all other employees. The rates further increased, as of July 1, 2012 to 22.00% for police officers and firefighters, and 15.50% for all other employees. Each year thereafter the rates will gradually increase to 25.00% for police officers and firefighters, and to 17.00% for all other employees.

Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

Total contributions by the Harbors Division for the fiscal years ended June 30, 2013, 2012, and 2011 were approximately $1,553,000, $1,384,000, and $1,367,000 respectively. The Harbors Division contributed 100% of its required contribution for each of those years. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Harbors Division.

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/.

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.

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.

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

	June 30, 2013	June 30, 2012
Annual required contribution	$ 3,731,000	$ 2,725,000
Contribution made	(1,020,000)	(735,000)
Increase in net OPEB obligation	2,711,000	1,990,000
Net OPEB obligation, beginning of the year	8,279,000	6,289,000
Net OPEB obligation, end of the year	$ 10,990,000	$ 8,279,000
Actual contributions made as a percentage of ARC	27.3%	27.0%

Contributions are financed on a pay-as-you-go basis and the Harbors Division's contributions for the fiscal years ended June 30, 2013, 2012, and 2011 were approximately $1,020,000, $735,000, and $650,000, respectively, which represents 27.3%, 27.0%, and 29.3%, 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.

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 Harbors Division records a liability for insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated.

The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years.

The State has an insurance policy for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $225,000,000 except for flood and earthquake, which individually is a $225,000,000 aggregate loss, and terrorism, which is $50,000,000 per occurrence and a $25,000 deductible.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage, which has a $100,000 limit per occurrence and a $1,000 deductible.

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.

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 position for the fiscal years ended June 30, 2013 and 2012 are approximately $10,773,000 and $9,220,000, 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 $3,293,000 and $2,725,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to approximately $1,124,000 and $1,033,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

The Harbors Division incurred costs of approximately $1,492,000 and $1,968,000 for fireboat operation services provided by the City and County of Honolulu during the fiscal years ended June 30, 2013 and 2012, 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.

During the fiscal year ended June 30, 2013, the Harbors Division transferred $610,632 to the Department of Land and Natural Resources, State of Hawaii, pursuant to Act 91, SLH 1999 to design and construct commuter ferry improvements at Molokai's Kaunakakai Harbor.

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.

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 is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex originally encompassed Piers 5 to 23 of Honolulu Harbor, but its boundaries were redefined by Act 152, SLH 2011. 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.

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, 2013 and 2012 was approximately $4,148,000 and $4,923,000, 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 collected $225,000 from ATDC at June 30, 2013 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, (HLRP). HLRP is a limited liability company that consisted at that time of two legal entities, Lifestyle Retail Properties LLC (LRP) and Hawaii Downtown Holdings LLC (HDH); HDH being solely owned by Hawaii Pacific University (HPU). After the transfer of the lease to HLRP in mid 2011, ATDC discussed various development proposals with HLRP culminating in an MOU dated December 15, 2011. In the 2012 Hawaii Legislative Session, HPU received legislative support for the issuance of special purpose revenue bonds for improvements to their facilities. In mid 2012, a dispute arose among the owners of HLRP which ultimately resulted in HDH buying out LRP's interest in HLRP and HDH taking control of the leasehold interest in late 2012. The terms of ATDC's MOU with HLRP, which are performance-based and had not been met at the end of this reporting period, will terminate on January 1, 2014. Since the resolution of the owners' dispute within HLRP, HLRP has been re-formulating its plans for improvements to the Marketplace leasehold property.

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 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. The Harbors Division paid Airports Division these amounts owed in September 2011. Both divisions continue discussions to resolve the use of approximately 11.344 acres of ceded lands owned by the Airports Division near the KMR site that is planned for inclusion into the KMR container yard development.

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, 2013 and 2012, 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 $59,168,000 and $45,265,000 at June 30, 2013 and 2012, 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, 2013 and 2012 were approximately $4,990,000 and $5,073,000, 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.

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 GASB 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 $640,000 remains accrued and unpaid as of June 30, 2013.

Environmental Protection Agency

During December 2008, the United States Environmental Protection Agency (EPA) conducted an audit to determine Harbors Division's compliance with its Storm Water Environmental Permits (SWMP). As a follow up to this audit, on June 18, 2009, the EPA issued an Administrative Order directing the Harbors Division to revise its Storm Water Management Plan, upgrade environmental inspections and procedures, improve documentation of environmental inspections and follow up actions, establish "Best Management Practices" (BMPs) standards, and include the use of permanent BMPs in any construction projects that are undertaken on Harbor Division premises. The EPA is also requiring that the Harbors Division develop a resources plan which will demonstrate how the Harbors Division will maintain environmental compliance in the future. The EPA established several intermediate deadlines and an overall compliance deadline of December 31, 2010 to implement the SWMP. The Harbors Division entered into an agreement with Weston Solutions, Inc., an international environmental consulting firm, to assist the Harbors Division in complying with the Administrative Order, the cost of which is approximately $500,000, of which $294,000 has been paid as of June 30, 2013.

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. 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 ongoing and is anticipated to be concluded in early 2014. An unfavorable outcome from these discussions could have a material adverse effect on the Harbors Division's financial position.

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

On July 3, 2013, the Governor signed into law Act 268, Session Laws of Hawaii 2013. Act 268 requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund post-employment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014. Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties. The State has determined that this law does not affect its Other Post Employment Benefit liability as of June 30, 2013.

On August 2, 2013, the Harbors Division issued $23,615,000 Series A of 2013 Revenue Refunding Bonds through a private placement transaction with Capital One Public Funding LLC. These bonds refunded the Series A of 2000 and Series B of 2002 Revenue Bonds. This bond refunding provided net present value savings of approximately $3.94 million as measured from the closing date at a fixed coupon rate of 3.25%.

On September 9, 2013, an estimated 233,000 gallons of molasses leaked into Honolulu Harbor from a pipeline maintained and operated by Matson Terminals, Inc. The company's molasses operations have subsequently been suspended. Federal and State agencies are investigating the incident. It is management's belief that the outcomes are not likely to have a material adverse effect on the Harbors Division's financial position.

The Harbors Division has evaluated subsequent events from the statements of net position date through December 20, 2013, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

SUPPLEMENTAL INFORMATION

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

Cash and Cash Equivalents of the Public Undertaking

June 30, 2013

Unrestricted cash and cash equivalents	$ 133,217,857
Restricted cash and cash equivalents:	
For construction−revenue bonds	155,538,578
For revenue bond debt service payments	22,203,994
For cash reserve requirement for Series A of 2010 revenue bonds	11,455,033
For revenue bond harbors reserve and contingency account	10,897,658
For construction−special purpose funds	58,270,604
For security deposits	2,825,457
For risk management	686,425
	261,877,749
	$ 395,095,606

With Director of Finance, State of Hawaii	$ 393,251,972
On hand	1,843,634
	$ 395,095,606

See accompanying independent auditors' report.

Schedule 2

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

Construction in Progress of the Public Undertaking

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Statewide:						
Various Commercial Harbor Security Improvements	$ 46,121	$ –	$ –	$ –	$ –	$ 46,121
Environmental Engineering Service for Special Maintenance Program	1,125	–	–	–	1,125	–
Consulting Engineer's Report on the Public Undertaking	36,394	–	–	–	36,394	–
State Commercial Harbor Plan and Development Projects	1,513,310	87,960	414	514	–	1,602,198
GIS for the State of Hawaii DOT Harbors Division	37,994	6,164	–	–	–	44,158
Construction Management and Inspection for Harbors Division Projects Statewide	2,689	–	–	–	2,689	–
Statewide Installation of Breasting Bollards	83,046	32,666	–	–	–	115,712
Harbor Security Improvements at Hilo and Kawaihae Harbors, Hawaii and Nawiliwili and Port Allen Harbors, Kauai	2,048	3,545,504	–	–	3,547,552	–
Statewide Maritime Wireless Network System	2,795	1,977,700	–	–	–	1,980,495
Honolulu Harbor:						
Reconstruction of Piers 52 and 53 Sand Island Container Yard, Honolulu Harbor, Oahu	–	6,158	–	–	6,158	–
Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu	–	311	130,847	3,402	134,560	–
Construction of Mooring Bollards at Piers 19-21, Honolulu Harbor	7,322	18,132	–	–	25,454	–
Subtotal carried forward	1,732,844	5,674,595	131,261	3,916	3,753,932	3,788,684

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 1,732,844	$ 5,674,595	$ 131,261	$ 3,916	$ 3,753,932	$ 3,788,684
Honolulu Harbor (continued):						
Planning Services for the Development of the New Kapalama Container Terminal, Honolulu	796,695	16,103	11,555	465	–	824,818
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	–	118	–	–	118	–
Pier 29 Extension, Honolulu Harbor, Oahu	251,708	–	–	–	–	251,708
Condominium Property Regime Piers 30-38, Honolulu Harbor	149,038	–	–	–	–	149,038
General Engineering Services for the Development of the New Kapalama Container Terminal, Honolulu	415,279	127,437	227,418	7,200	–	777,334
Methane Mitigation Piers 36-38, Lease Parcels 3, 4, 5, 6 7 and 8, Domestic Commercial Fishing Village, Honolulu Harbor	223,749	5,466	–	–	1,567	227,648
Barge Terminal Improvements at Piers 39 and 40, Honolulu Harbor	365,956	–	–	–	–	365,956
Construction of Pier 29 Container Yard, Honolulu Harbor, Oahu	–	35,701	–	–	35,701	–
Rehabilitation of Buildings and Yard Areas at Piers 34 and 35, Honolulu Harbor	94,747	302,460	80,876	2,623	–	480,706
Subtotal carried forward	4,129,700	6,161,880	451,110	14,204	3,791,318	6,965,576

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 4,129,700	$ 6,161,880	$ 451,110	$ 14,204	$ 3,791,318	$ 6,965,576
Honolulu Harbor (continued):						
Demolition of Structures at Kapalama Military Reservation	69,135	281,306	13,702	444	–	364,587
Environmental Assessment and Other Pre-Development Studies for Renovation of Facilities at Piers 34 and 35, Honolulu Harbor	439,437	–	3,337	844	–	443,618
Development Plan for Relocation of Kapalama Military Tenants	339,907	–	107	278	340,292	–
Pier 2 Passenger Terminal Enhancements	115	3,134	–	–	3,249	–
Replacement of Fire Protection Lines at Piers 52-53, Honolulu Harbor, Oahu	25,337	16,833	–	–	–	42,170
Environmental and Development Services for Honolulu Harbor	133	–	10,525	279	–	10,937
Kapalama Container Terminal Wharf and Dredging Design, Honolulu Harbor, Oahu	2,212	688,978	42,681	1,214	–	735,085
The New Kapalama Container Terminal Yard Design, Honolulu Harbor, Hawaii	267	1,083,347	41,135	1,077	–	1,125,826
Clearing of Leased Lot at Kapalama Military Reservation, Honolulu Harbor, Oahu	1,917	–	–	–	1,917	–
Construction Management Services for Rehabilitation of Building and Yard Areas at Piers 34/35, Honolulu Harbor, Oahu and Building Improvements at Pier 35, Honolulu Harbor, Oahu	–	–	42,694	1,103	–	43,797
Subtotal carried forward	5,008,160	8,235,478	605,291	19,443	4,136,776	9,731,596

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 5,008,160	$ 8,235,478	$ 605,291	$ 19,443	$ 4,136,776	$ 9,731,596
Honolulu Harbor (continued):						
Ke'ehi Industrial Lots Waterline Replacement, Honolulu Harbor, Oahu	3,237	2,836	–	–	6,073	–
Pier 39 Shed Demolition and Yard Lighting Improvements, HMP Project, Honolulu Harbor	1,125,884	–	191	–	8	1,126,067
Design Specifications for the Relocation of UHSOEST Marine Center from Piers 44-45 to Pier 35, HMP Project, Honolulu Harbor	486,878	–	111,963	27,546	–	626,387
Relocation of Harbors Tenant to Kapalama Military Reservation	1,098	–	–	55	–	1,153
Construction of Improvements Piers 12 and 15, HMP Project Honolulu Harbor	824,948	–	122,484	44,276	–	991,708
Demolish Shed at Pier 31, Provide Continuity for Utilities, Including Lighting and Drainage Resolution Honolulu Harbor, Oahu	–	39,694	–	–	–	39,694
Renovations at Pier 35, Honolulu Harbor	503,826	–	–	–	–	503,826
Design Specifications for the Strengthening of Pier 29 to Withstand Potential User Loads Honolulu Harbor, Oahu	–	11,112	–	–	–	11,112
Replace Fire Suppression System Pier 31 and 32 Honolulu Harbor, Oahu	–	10,064	–	–	–	10,064
Subtotal carried forward	7,954,031	8,299,184	839,929	91,320	4,142,857	13,041,607

Schedule 2

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 7,954,031	$ 8,299,184	$ 839,929	$ 91,320	$ 4,142,857	$ 13,041,607
Repairs to Vent Line and Air Conditioning at Aloha Tower, Honolulu Harbor SM Project to CIP	161,280	5,698	–	–	–	166,978
Pavement Repairs at Horizon Lines Container Yard, Honolulu Harbor SM Project to CIP	215,462	314,573	–	–	530,035	–
Repair Piles and Waterline at Piers 24-26 Honolulu Harbor SM Project to CIP	1,214,241	32,110	–	–	1,246,351	–
Bulkhead and Substructure Repairs at Pier 28 Honolulu Harbor, Oahu SM Project to CIP	–	826,758	–	–	826,758	–
Replace Transformer at KMR, Honolulu Harbor SM Project to CIP	27,854	–	–	–	27,854	–
Repair Roof at Pier 31 Shed, Honolulu Harbor	42,750	95,719	–	–	138,469	–
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	9,263	–	–	118,132	–
Substructure Repairs at Piers 1 and 2, Honolulu Harbor	510,000	–	–	–	510,000	–
Substructure Repairs at Pier 21, Honolulu Harbor	432,951	113,437	–	–	546,388	–
Subtotal carried forward	10,901,266	9,696,742	839,929	91,320	8,320,672	13,208,585

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 10,901,266	$ 9,696,742	$ 839,929	$ 91,320	$ 8,320,672	$ 13,208,585
Honolulu Harbor (continued):						
Roof Repairs at Pier 10 Shed, Honolulu Harbor	140,899	–	–	–	140,899	–
Substructure Repairs at Pier 10, Honolulu Harbor	703,589	164,178	–	–	703,589	164,178
Pavement Repairs at Fort Armstrong, Honolulu Harbor	443,109	666,566	–	–	443,109	666,566
Substructure and Waterline Repairs at Pier 35, Honolulu Harbor	31,663	1,427,235	–	–	–	1,458,898
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	434,980	–	–	448,539	–
Pavement Repairs at Matson Terminals Container Yard, Honolulu Harbor, Oahu SM Project to CIP	–	687,834	–	–	687,834	–
Repair Roof and Gutter System at Pier 2 Terminal Honolulu Harbor, Oahu SM Project to CIP	–	400,664	–	–	400,664	–
Repair Lighting at Pier 1 Honolulu Harbor, Oahu SM Project to CIP	–	119,150	–	–	119,150	–
Bollard Repairs at Piers 52-53, Honolulu Harbor, Oahu SM Project to CIP	–	105,088	–	–	–	105,088
Kalaeloa Barbers Point Harbor:						
Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbor, Oahu	–	3,033	–	–	3,033	–
Subtotal carried forward	12,245,656	13,705,470	839,929	91,320	11,267,489	15,614,886

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 12,245,656	$ 13,705,470	$ 839,929	$ 91,320	$ 11,267,489	$ 15,614,886
Kalaeloa Barbers Point Harbor (continued):						
Access & Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu	1,056,401	750,904	–	–	–	1,807,305
Planning, Environmental and Development Services for Kalaeloa Harbor, Oahu	331	–	182,854	4,743	–	187,928
Repair Roll-up Doors at Pier Shed, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	–	264,832	–	–	264,832	–
Embankment repairs , Phase 3, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	147,751	286,908	–	–	434,659	–
Repair Water Hatches at Piers 5 and 6, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	4,588	191,617	–	–	–	196,205
KBPH Modifications Study	–	2,331	–	–	2,331	–
Kahului Harbor:						
Pier 1 Makai Comfort Station and Waterline Improvements, Kahului Harbor, Maui	–	5,440	–	–	5,440	–
Port of Kahului Passenger/Cargo Ship Facilities Improvised Explosive Devices (IEDS) Threat Prevention Program	–	(10,146)	–	–	(10,146)	–
Subtotal carried forward	13,454,727	15,197,356	1,022,783	96,063	11,964,605	17,806,324

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 13,454,727	$ 15,197,356	$ 1,022,783	$ 96,063	$ 11,964,605	$ 17,806,324
Kahului Harbor (continued):						
Kahului Harbor Reconnaissance Study	30	–	–	–	–	30
Planning and Environmental Services for Hana Harbor, Maui, Hawaii	430	198	157,640	4,096	198	162,166
Replace Perimeter road fence and new fence at Piers 1-2, Kahului Harbor, Maui	13,458	139,330	–	–	152,788	–
Replacement of Pier 1 Bullrails, Kahului Harbor, Maui	6,452	2,555	–	–	–	9,007
Planning, Environmental and Development Services for Property Acquisition, Kahului Harbor, Maui	–	–	25,326	655	–	25,981
Relocate Maui District Office to the Old Kahului Railroad Building and Associated Improvements and Demolish the Old Kahului Store Building Kahului Harbor, Maui	–	32,104	–	–	–	32,104
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	96,217	–	–	551,113	–
Repair Windows at Pier 1 Shed Kahului Harbor, Maui SM Project to CIP	–	210,978	–	–	210,978	–
Repair Fender System at Pier 1 Shed Kahului Harbor, Maui SM Project to CIP	–	99,020	–	–	–	99,020
Subtotal carried forward	13,945,548	15,777,758	1,205,749	100,814	12,879,682	18,150,187

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 13,945,548	$ 15,777,758	$ 1,205,749	$ 100,814	$ 12,879,682	$ 18,150,187
Kahului Harbor (continued):						
Repair Fire Sprinkler System at Pier 1 Shed Kahului Harbor, Maui SM Project to CIP	–	166,183	–	–	–	166,183
Substructure and Expansion Joint Repairs at Piers 1 and 3, Kahului Harbor, Maui SM Project to CIP	–	394,712	–	–	394,712	–
Hana Harbor:						
Hana Harbor Reconnaissance Study	30	–	–	–	–	30
Planning and Consulting Engineering Services Infrastructure Renovation and Pier Expansion Hana Harbor, maui, NWP project	233,487	–	63,636	11,650	–	308,773
Kaumalapau Harbor:						
Pavement Repairs, Kaumalapau Harbor, Lanai SM Project to CIP	–	201,999	–	–	201,999	–
Ferry System Improvements at Kaunakakai Harbor, Molokai Maui	200,910	5,855	–	–	–	206,765
Substructure Repairs at Kaunakakai Harbor (Phase 5), Molokai SM to CIP	263,000	214,000	–	–	477,000	–
Subtotal carried forward	14,642,975	16,760,507	1,269,385	112,464	13,953,393	18,831,938

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 14,642,975	$ 16,760,507	$ 1,269,385	$ 112,464	$ 13,953,393	$ 18,831,938
Kaunakakai Harbor:						
Repair Pavement at Cargo Yard, Kaunakakai Harbor, Molokai SM Project to CIP	–	–	–	–	–	–
Hilo Harbor:						
Pier 1 Shed Modifications, Hilo Harbor, Hawaii	606,701	3,990,400	–	–	–	4,597,101
Construction of Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii	9,576,800	112,591	1,524,704	406,904	46,572	11,574,427
Hilo Harbor Reconnaissance Study	1,215	3,986	–	–	–	5,201
Design for Pier 1 Shed Roofing and Siding Improvements, Hilo Harbor, Hawaii	247,509	32,041	–	–	–	279,550
Additional Fencing at Pier 1 and Radio Bay Access Road, Hilo Harbor, Hawaii	124,186	54,156	–	–	178,342	–
Pier 1 Shed Modifications, Phase II, Hilo Harbor	4,607	27,910	–	–	–	32,517
Design for Pier 4 Inter-island Cargo Terminal HMP Project Hilo Harbor, Hawaii	569,623	–	135,936	31,653	–	737,212
Pier 4 inter-island Cargo Terminal, Improvements to Kumau Street Entrance HMP project Hilo Harbor, Hawaii	238,177	–	228,157	17,432	–	483,766
Strengthening Pier 2 Hilo Harbor, Hawaii	–	6,396	–	–	–	6,396
Subtotal carried forward	26,011,793	20,987,987	3,158,182	568,453	14,178,307	36,548,108

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 26,011,793	$ 20,987,987	$ 3,158,182	$ 568,453	$ 14,178,307	$ 36,548,108
Hilo Harbor (continued):						
Demolition of Water Tower and Water System Improvements, Hilo Harbor, Hawaii	–	1,978	–	–	–	1,978
Repair Sewer Pump Station at Hilo Harbor, Hawaii SM Project to CIP	263,414	26,039	–	–	289,453	–
Substructure Repairs at Piers 1 and 2, Hilo Harbor, Hawaii SM Project to CIP	372,608	465,484	–	–	838,092	–
Repair Fender System at Pier 2, Hilo Harbor, Hawaii SM Project to CIP	–	44,352	–	–	–	44,352
Kawaihae Harbor:						
Repair Marginal Wharf, Kawaihae Harbor	379	–	–	–	379	–
Improvements for New Terminal Cargo Facilities at Kawaihae Harbor	304,539	–	11,462	15,080	–	331,081
Construction of South Basin Perimeter Fence at Kawaihae Harbor, Hawaii	–	4,779	–	–	–	4,779
Design for Pier 2 Terminal Improvements at Kawaihae Harbor	608,172	–	497,825	43,382	–	1,149,379
Substructure Repairs at Pier 2A Kawaihae Harbor, Hawaii SM Project to CIP	–	291,000	–	–	291,000	–
Subtotal carried forward	27,560,905	21,821,619	3,667,469	626,915	15,597,231	38,079,677

Schedule 2

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 27,560,905	$ 21,821,619	$ 3,667,469	$ 626,915	$ 15,597,231	$ 38,079,677
Kawaihae Harbor (continued):						
Repair Hatches and Concrete Pavement Joints at Pier 2 Kawaihae Harbor, Hawaii SM Project to CIP	–	110,770	–	–	110,770	–
Repair Culvert at Kawaihae Harbor, Hawaii SM Project to CIP	154,999	–	–	–	154,999	–
Nawiliwili Harbor:						
Nawiliwili Harbor Channel Modifications Project	263,231	255	–	–	–	263,486
Reconstruction of Pier 2 Fendering System, Nawiliwili Harbor, Kauai	–	16,680	–	–	16,680	–
Replace Fence Fabric and Gate Along Wilcox Road, Kanoa Street and Wa'apa Road, Nawiliwili Harbor, Kauai	10,878	108,825	–	–	119,703	–
Repair Fence at Pier 3, Nawiliwili Harbor, Kauai SM Project to CIP	98,952	4,460	–	–	103,412	–
Subtotal carried forward	28,088,965	22,062,609	3,667,469	626,915	16,102,795	38,343,163

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2013

Project	Balance July 1, 2012	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30, 2013
Subtotal brought forward	$ 28,088,965	$ 22,062,609	$ 3,667,469	$ 626,915	$ 16,102,795	$ 38,343,163
Nawiliwili Harbor (continued):						
Repair Gutters and Downspouts at Pier 3, Nawiliwili Harbor, Kauai SM Project to CIP	–	130,397	–	–	130,397	–
Repair Fence at Pier 1 Storage Yard, Nawiliwili Harbor, Kauai SM Project to CIP	–	209,950	–	–	209,950	–
Port Allen Harbor:						
Repairs to Roof at Pier Shed, Port Allen Harbor, Kauai SM Project to CIP	–	114,956	–	–	114,956	–
Installation of Lift Station and Force Main, Port Allen Harbor, Kauai	8,795	4,582	–	–	–	13,377
Substructure Repairs at Port Allen Harbor, Kauai SM Project to CIP	–	–	–	–	–	–
Other	115,715	4,103	–	–	796	119,022
Total	$ 28,213,475	$ 22,526,597	$ 3,667,469	$ 626,915	$ 16,558,894	$ 38,475,562

See accompanying independent auditors' report.

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

Revenue Bonds of the Public Undertaking

Year Ended June 30, 2013

	Final Redemption Date	Interest Rate	Original Amount of Issue	Balance at June 30, 2013 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	610,000	8,795,000	9,405,000
Issue of 2004	January 1, 2024	2.50-6.00%	52,030,000	1,430,000	19,280,000	20,710,000
Issue of 2006	January 1, 2031	4.00-5.25%	96,570,000	2,780,000	77,640,000	80,420,000
Issue of 2007	July 1, 2027	4.25-5.50%	51,645,000	4,475,000	37,920,000	42,395,000
Issue of 2010	July 1, 2040	3.00-5.75%	201,390,000	3,360,000	192,935,000	196,295,000
			$ 505,460,000	$ 12,655,000	$ 351,240,000	$ 363,895,000

See accompanying independent auditors' report.

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

Income from Operations Before Depreciation

Year Ended June 30, 2013

		District									
		Oahu		Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating revenues, net											
Services:											
Wharfage	$ -	$ 53,799,150	$ 2,165,753	$ 1,983,062	$ 2,383,044	$ 4,377,093	$ 195,827	$ 156,561	$ 1,858,065	$ -	$ 66,918,555
Pax debark/embark	-	2,524,862	-	2,031,849	1,309	733,821	1,199	1,128	1,358,418	-	6,652,586
Dockage	-	3,260,037	568,487	301,365	69,083	423,196	41,446	4,830	403,390	3,335	5,075,169
Demurrage	-	1,625,366	-	106,655	103,674	47,774	-	-	7,708	-	1,891,177
Port entry	-	644,259	116,492	84,618	37,510	83,153	12,107	4,558	72,765	2,585	1,058,047
Mooring charges	-	289,066	1,898	8,071	52,334	-	1,898	-	100	422,098	775,465
Cleaning charges	-	206,257	-	-	-	-	-	-	-	-	206,257
Other services	-	15,766	200	287	5,361	1,815	35	-	6,344	14,726	44,534
Total services	-	62,364,763	2,852,830	4,515,907	2,652,315	5,666,852	252,512	167,077	3,706,790	442,744	82,621,790
Rentals:											
Wharf space and land	-	15,597,013	1,767,788	66,839	271,822	181,317	15,006	300	290,688	207,364	18,398,137
Storage	-	3,092,799	67,387	368,169	489,479	74,758	784	-	231,650	16,038	4,341,064
Automobile parking	-	930,199	3,081	91,886	9,665	43,250	1,847	-	81,631	12,941	1,174,500
Pipeline water	-	66,027	7,594	34,706	250	41,624	-	-	58,996	-	209,197
Other pipeline	-	1,155,327	1,139,450	527,036	26,239	659,384	18,382	-	137,815	135,915	3,799,548
Total rentals	-	20,841,365	2,985,300	1,088,636	797,455	1,000,333	36,019	300	800,780	372,258	27,922,446
Others:											
Sale of utilities	-	669,432	104,387	56,859	1,975	87,151	-	-	84,423	7,535	1,011,762
Miscellaneous	-	1,000,609	2,141	4,378	69,111	17,947	16,672	-	2,947	728	1,114,533
Total others	-	1,670,041	106,528	61,237	71,086	105,098	16,672	-	87,370	8,263	2,126,295
Total operating revenues	-	84,876,169	5,944,658	5,665,780	3,520,856	6,772,283	305,203	167,377	4,594,940	823,265	112,670,531
Operating expenses before depreciation and amortization:											
Harbor operations	10,801,898	5,150,215	562,459	498,560	372,695	244,801	11,060	-	512,825	37,918	18,192,431
Personnel services	7,050,487	6,110,422	172,553	784,622	63,549	960,585	43,976	-	920,979	50,461	16,157,634
General administration	2,605,047	1,671,560	677	16,369	5,441	152,605	-	70	26,279	2,930	4,480,978
State of Hawaii, surcharge for central service expenses	3,293,227	-	-	-	-	-	-	-	-	-	3,293,227
Maintenance	260,918	1,147,295	78,180	416,078	131,708	178,943	12,619	66,932	167,725	1,988	2,462,386
Fireboat operations	-	1,492,160	-	-	-	-	-	-	-	-	1,492,160
Department of Transportation, general administration expenses	1,123,618	-	-	-	-	-	-	-	-	-	1,123,618
Subtotal	25,135,195	15,571,652	813,869	1,715,629	573,393	1,536,934	67,655	67,002	1,627,808	93,297	47,202,434
Allocation of statewide expenses (1)	(25,135,195)	18,934,668	1,326,169	1,263,955	785,453	1,510,800	68,086	37,339	1,025,066	183,659	-
Total operating expenses before depreciation and amortization	-	34,506,320	2,140,038	2,979,584	1,358,846	3,047,734	135,741	104,341	2,652,874	276,956	47,202,434
Income from operations before depreciation and amortization	$ -	$ 50,369,849	$ 3,804,620	$ 2,686,196	$ 2,162,010	$ 3,724,549	$ 169,462	$ 63,036	$ 1,942,066	$ 546,309	$ 65,468,097

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

See accompanying independent auditors' report.

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

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

Year Ended June 30, 2013

Net revenues, as defined by the 1997 Certificate:		
Operating income before depreciation and amortization	$	65,468,097
Add:		
Interest income		867,495
State of Hawaii, surcharge for central service expenses		3,293,227
Cash available in the harbor reserve and contingency account		10,897,658
	$	80,526,477
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments	$	31,530,985
Ratio of net revenues to harbor revenue bond debt service requirements		2.55

See accompanying independent auditors' report.