Harbors Division
Department of Transportation
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplementary Information

June 30, 2021 and 2020

Submitted by
The Auditor
State of Hawaii

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

ACCUITY

Report of Independent Auditors

The Auditor
State of Hawaii

Report on the Financial Statements
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, 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year 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 audit. We conducted our audit 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 auditors consider 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.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbors Division as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Relationship to the State of Hawaii
As discussed in Note 1, the financial statements of the Harbors Division are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and proprietary fund type of the State of Hawaii that is attributable to the transactions of the Harbors Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2021 and 2020, and the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Harbors Division's basic financial statements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 6, 2021, 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 grants agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Harbors Division's 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.

Prior Period Financial Statements

The financial statements of the Harbors Division as of June 30, 2020 were audited by other auditors whose report dated November 30, 2020 expressed an unmodified opinion on those statements.

Accuity LLP

Honolulu, Hawaii
December 6, 2021

The following Management's Discussion and Analysis ("MD&A") 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 years ended June 30, 2021 and 2020. 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 commercial harbors are owned by the State of Hawaii (the "State") and are operated as a single statewide system for management and financial purposes on behalf of the State by the Department of Transportation (the "Department") through the Harbors Division. This creates a monopoly system that provides essential commercial harbors/maritime facilities.

The statewide system of commercial harbors consists of 10 harbors on six islands. The harbors system includes the harbor waters, harbor lands and waterfront improvements, ports, docks, wharves, quays, bulkheads, landings, and other related facilities and properties belonging to or controlled by the State and under the management, jurisdiction and control of the Harbors Division. 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, of which 99% passes through the State's commercial harbors system.

The Harbors Division is self-sustaining. The Department is authorized by the Hawaii Revised Statutes ("HRS"), as amended, to impose and collect rates and charges for the use of the harbors system and its properties to generate revenues to pay the costs of operations, maintenance and repair of the commercial harbors, and to pay debt service on the harbors system revenue bonds and certain other outstanding obligations of the Harbors Division. The Capital Improvements Program ("CIP") is designed to enhance system efficiency and capacity, now and for the future, and is also funded by the Harbors Division's revenues and proceeds from the issuance of harbors system revenue bonds.

Overview of 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 ("GASB").

Financial Highlights

- The Harbors Division's net position at June 30, 2021 and 2020 amounted to $1,154.0 million and $1,073.1 million, respectively. Net position increased by $80.9 million in fiscal year 2021, an increase of 7.5%. Net position increased by $77.3 million in fiscal year 2020, an increase of 7.8%.

- Fiscal year 2021 operating revenue was $182.1 million compared to fiscal year 2020 operating revenue of $176.1 million. A $12.4 million increase in wharfage over prior year includes a modest increase in cargo containers and a deferred 3% tariff increase from July 1, 2020 to January 1, 2021. Year-to-year revenue comparisons were offset by a $6.3 million reduction of no passenger ("pax") debark/embark income due to the United States Centers for Disease Control and Prevention ("CDC") No Sail Order (March 14, 2020) as replaced with its Conditional Sail Order (October 20, 2020); and lower interest income realized during fiscal year 2021 in the amount of $1.7 million compared to fiscal year 2020 with interest income of $7.5 million.

- During the remaining months of fiscal year 2020, Governor David Y. Ige's (the "Governor") March 4, 2020 emergency declaration was implemented to contain the spread of the SARS-CoV-2 novel coronavirus disease, commonly referred to as COVID-19, as named by the World Health Organization. Additional supplemental proclamations were issued mandating non-essential personnel self-quarantine and persons entering the State quarantine for 14 days to slow the introduction of community spread of the contagious COVID-19 virus.

- During fiscal year 2021, the Governor eased stay-at-home orders to residents and relaxed restrictions on non-essential businesses when residents began to receive vaccinations against the COVID-19 virus. Fiscal year 2021 operating income amounted to $87.9 million which remained relatively stable compared to operating income of $87.6 million in fiscal year 2020.

A summary of operations and changes in net position for the years ended June 30, 2021, 2020 and 2019 follows:

Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2021, 2020 and 2019
(in thousands)

	Year Ended June 30			2021–2020		2020–2019	
	2021	2020	2019	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Operating revenues	$ 182,060	$ 176,132	$ 190,717	$ 5,928	3.4 %	$ (14,585)	(7.6)%
Nonoperating revenues	1,678	7,490	7,888	(5,812)	(77.6)%	(398)	(5.0)%
Total revenues	183,738	183,622	198,605	116	0.1 %	(14,983)	(7.5)%
Depreciation expense	40,217	32,453	28,994	7,764	23.9 %	3,459	11.9 %
Other operating expenses	53,957	56,061	54,661	(2,104)	(3.8)%	1,400	2.6 %
Nonoperating expenses	14,875	17,975	9,239	(3,100)	(17.2)%	8,736	94.6 %
Total expenses	109,049	106,489	92,894	2,560	2.4 %	13,595	14.6 %
Income before capital contributions	74,689	77,133	105,711	(2,444)	(3.2)%	(28,578)	(27.0)%
Capital contributions	6,165	163	-	6,002	3,682.2 %	163	(100.0)%
Change in net position	80,854	77,296	105,711	3,558	4.6 %	(28,415)	(26.9)%
Net position, beginning of year	1,073,141	995,845	890,134	77,296	7.8 %	105,711	11.9 %
Net position, end of year	$ 1,153,995	$ 1,073,141	$ 995,845	$ 80,854	7.5 %	$ 77,296	7.8 %

Operating Revenues

Total operating revenues for fiscal year 2021 were $182.1 million compared to $176.1 million for fiscal year 2020, an increase of $6.0 million or 3.4%. Difference in year-over-year growth is partly due to the deferred tariff increase of 3% effective January 1, 2021 and a modest increase in cargo growth. In fiscal year 2021, operating revenues consisted primarily of service revenues and rental revenues, which accounted for 84.5% and 14.8%, respectively, of the Harbors Division's total operating revenues.

The Governor's March 4, 2020 emergency declaration in response to contain the COVID-19 disease and supplemental proclamations mandated a 14-day self-quarantine for all persons entering the State resulted in a sudden stoppage in tourism. The emergency and supplemental proclamations also affected primary, secondary and higher education schools, which required social distancing through the implementation of various learning methods, hybrid schedules, or remote learning. Cargo demand declined due to the reduced demand for food and other goods by schools, restaurants, retail businesses, and the hospitality industry.

During fiscal year 2021, when vaccines against the COVID-19 virus were received and the vaccination program of the general public began during March 2021, the Governor eased stay-at-home orders to residents and relaxed restrictions on non-essential businesses. According to the Department of Business, Economic Development and Tourism ("DBEDT") on June 30, 2021, Hawaii's one-dose vaccination rate was 69.3% compared to the overall United States rate (one dose) of 53.8%, and

51.4% fully vaccinated compared to the nation's 45.7% rate. The seven-day moving average for total daily passenger counts including visitor and resident arrivals in June 2021 was 29,435 compared to 36,006 during 2019, a 18.2% decrease. Unemployment claims were also significantly lowered by 69.1% compared to prior year. Value of building permits increased 20.3% over 2020 or $146.6 million. The difference in year-over-year revenue growth is partly due to a modest increase in cargo growth and the deferral of a tariff increase of 3% from July 1, 2020 to January 1, 2021.

The CDC issued a No Sail Order on March 14, 2020, that later was replaced with the Conditional Sail Order during October 2020 that suspended further embarkation for all cruise ships which remained in effect for the entire fiscal year 2021. With no cruise ships, revenues for pax debark/embark were reduced from $6.3 million in fiscal year 2020 down to zero. Harbors believes the cruise industry will start up possibly in early 2022 incorporating Hawaii's Safe Travel program.

During fiscal year 2021, cargo continued to flow through the harbor system to support essential businesses and needs of the State's population. The construction industry, an essential business, was not affected by emergency proclamations. DBEDT forecasted the construction industry to remain strong with ongoing large public and private sector capital projects. In addition, as experienced across the nation, government stay-at-home orders and low interest rates spurred a shift in consumer demand for new and re-construction projects, home remodeling supplies, home goods, and other goods that supported commerce through the commercial harbors.

Total operating revenues for fiscal year 2020 were $176.1 million compared to $190.7 million for fiscal year 2019 or about 8% due to the impact of the stay-at-home orders and travel restrictions. In fiscal year 2020, operating revenues consisted primarily of service revenues and rental revenues, which accounted for 84.0% and 15.4%, respectively, 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 2021 and 2020 were $153.9 million and $147.9 million, respectively.

Service revenues for fiscal year 2021 increased $6.0 million or 4.0% as compared to fiscal year 2020. Wharfage revenues from cargo movements increased by $12.4 million from $131.1 million in fiscal year 2020 to $143.5 million in fiscal year 2021 due primarily to a shift in consumer demand and low interest rates for home remodeling goods and construction materials, home goods and appliances, and other goods imported and handled through the commercial harbors. Because the CDC orders remained in effect, pax debark/embark revenue decreased by $6.3 million to zero during fiscal year 2021.

Service revenues for fiscal year 2020 decreased $11.3 million or 7.1% as compared to fiscal year 2019. Wharfage revenues from cargo movements decreased by $9.8 million from $140.9 million in fiscal year 2019 to $131.1 million in fiscal year 2020 due primarily to the effects of the emergency proclamations to contain the spread of the COVID-19 pandemic.

Passenger fee revenue decreased by $2.7 million or 30.4% from $9.0 million in fiscal year 2019 to $6.3 million in fiscal year 2020, as cruise ship travel was suspended by the CDC for a portion of the cruise season and voluntarily by the Cruise Lines International Association ("CLIA") and its member cruise lines from March 2020 due to the COVID-19 pandemic. The suspension of cruise ship travel caused passenger volumes (inbound and outbound) for fiscal year 2021 to drop approximately 813,000 passengers, and approximately 387,000 passengers in fiscal year 2020 from the 1.2 million passengers in fiscal year 2019. Effective July 1, 2018, a flat fee for embark and debark fee was implemented at $15.00 per passenger for Honolulu Harbor, Oahu; and $8.00 per passenger at Kalaeloa Barbers Point Harbor, Oahu; Hilo and Kawaihae Harbors, Hawaii; Kahului Harbor, Maui; Kaunakakai Harbor, Molokai; Kaumalapau Harbor, Lanai; and Nawiliwili and Port Allen Harbors, Kauai.

Rental Revenues

Rental revenues for fiscal year 2021 were $26.9 million, a decrease of $0.2 million from fiscal year 2020 of $27.1 million. While wharf space and land rental revenues for fiscal year 2021 were $15.6 million, an increase of $2.2 million over fiscal year 2020, primarily due to reopening of various leases and reevaluation of revocable permits which led to updated and increased rates and storage, increased by $0.1 million from $4.9 million in fiscal year 2020 to $5.0 million in fiscal year 2021, decreases in year-over-year comparison in other pipeline revenues amounting to $2.2 million, automobile parking of $0.1 million, and pipeline water of $0.2 million from fiscal year 2020 due to impacts of COVID-19 were realized.

With the restrictions on air travel, jet fuel dropped 65.5% in fiscal year 2021. The fiscal year 2021 volume of 3.7 million barrels compared with fiscal year 2020 volume of 10.8 million barrels represented the majority of the decreased revenues of $1.7 million. Because of lower tourism activity, diesel pipeline revenue dropped by 23.5%, fiscal year 2021 volume of 5.7 million barrels versus fiscal year 2020 volume of 7.4 million barrels representing decreased revenues of $0.3 million. Stay-at-home orders also reduced demand for electrical power at peak hours affecting fuel oil which dropped by 33.7%, fiscal year 2021 volume of 1.77 million barrels versus fiscal year 2020 volume of 2.66 million barrels representing decreased revenues of $0.1 million. Demand for Bunker C dropped by 88.4% during fiscal year 2021 when the refinery sought cost alternatives to producing fuel products. Fiscal year 2021 volume of 62.8 thousand barrels versus fiscal year 2020 volume of 542.1 thousand barrels representing decreased revenues of $0.1 million. The exception to these decreases is that during fiscal year 2021, imported quantities of barrels of gasoline increased by approximately 14.1% at a volume of 8.4 million barrels versus fiscal year 2020 volume of 7.4 million barrels representing an increase in revenues of $0.3 million.

This increase in imports of gasoline in fiscal year 2021 can be attributed to lower costs of providing finished product versus manufacturing at Hawaii's refineries. The number of barrels imported during fiscal year 2020 averaged 608,695 barrels per month, while the monthly average for fiscal year 2021 was 695,965 barrels per month.

Rental revenues for fiscal year 2020 were $27.1 million, a decrease from fiscal year 2019 of approximately $2.8 million, due primarily to an administrative change in storage fee charges. Revenues from revocable permits were re-assigned to charges pursuant to the Hawaii Administrative Rules for storage charges at 50% of the stated rates for the use of land to store stevedoring equipment, mobile equipment, and shipping devices. Wharf space and land rental income decreased by approximately $815,000 due to revocable permit cancellations, and storage fee revenues decreased by approximately $996,000 due to reduced cargo storage. On July 2, 2019, tariff rates for pipeline fees were increased by 3%, however, revenues from pipeline fees decreased by approximately $635,000 due to reduced volumes of imported jet fuel attributed to reduced airline and passenger arrivals, and diesel and gasoline volume because of the 14-day stay-at-home order and the closure of non-essential businesses.

Operating Expenses

Fiscal year 2021 operating expenses, excluding depreciation expense, amounted to $54.0 million as compared to fiscal year 2020 of $56.1 million. The decrease in operating expenses, excluding depreciation expense, for fiscal year 2021 in comparison to fiscal year 2020 of $2.1 million or 3.8% was primarily due to decreases in harbor operations and maintenance of $3.8 million. The decreases in harbor operations and maintenance were mainly due to the savings for contracted security not being needed for cruise ships, utilities savings, and maintenance expenses were reduced primarily to facilitate closing older special maintenance projects which slowed spending in the current year. Additionally, there was a decrease in State Central Services Fees of approximately $1.2 million and a decrease in Department of Transportation General and Administrative Expenses of approximately $0.2 million. These decreases were offset by increases in personnel costs from fiscal year 2020 to fiscal year 2021 by $2.1 million which resulted from retroactive collective bargaining increases in pay and increases in other postemployment benefits ("OPEB") and pension liabilities. General and administration expenses also increased in fiscal year 2021 from fiscal year 2020 by $1.0 million due to additional professional service contracts of $0.3 million, endangered birds costs of $0.4 million, and other miscellaneous costs of $0.3 million.

The increase in operating expenses for fiscal year 2020 as compared to fiscal year 2019 of $1.4 million was primarily due to the increase in personnel services costs of $1.4 million, attributed to the success in staffing key positions and the increase in OPEB and pension expense plus the increase in harbors operations expense of $1.8 million, offset by decreases in general administration expenses of $1.1 million and Department of Transportation general administration expenses of $0.6 million.

A summary of the Harbors Division's net position at June 30, 2021, 2020 and 2019 is shown below:

Condensed Statements of Net Position
As of June 30, 2021, 2020 and 2019
(in thousands)

	As of June 30			2021–2020		2020–2019	
	2021	2020	2019	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Assets							
Current and other assets	$ 641,050	$ 440,265	$ 446,902	$ 200,785	45.6 %	$ (6,637)	(1.5)%
Capital assets, net	1,082,729	1,037,834	987,702	44,895	4.3 %	50,132	5.1 %
Total assets	1,723,779	1,478,099	1,434,604	245,680	16.6 %	43,495	3.0 %
Deferred outflows of resources	10,308	10,994	12,574	(686)	(6.2)%	(1,580)	(12.6)%
Liabilities							
Current liabilities	62,507	51,446	68,533	11,061	21.5 %	(17,087)	(24.9)%
Long-term liabilities	514,664	363,605	381,425	151,059	41.5 %	(17,820)	(4.7)%
Total liabilities	577,171	415,051	449,958	162,120	39.1 %	(34,907)	(7.8)%
Deferred inflows of resources	2,921	901	1,375	2,020	224.2 %	(474)	(34.5)%
Net position							
Net investment in capital assets	687,705	727,682	666,526	(39,977)	(5.5)%	61,156	9.2 %
Restricted	355,683	209,525	177,801	146,158	69.8 %	31,724	17.8 %
Unrestricted	110,607	135,934	151,518	(25,327)	(18.6)%	(15,584)	(10.3)%
Total net position	$ 1,153,995	$ 1,073,141	$ 995,845	$ 80,854	7.5 %	$ 77,296	7.8 %

Net Position

The largest portion of the Harbors Division's net position (59.6% and 67.8% at June 30, 2021 and 2020, 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 will be liquidated to pay for such liabilities.

The restricted portion of the Harbors Division's net position (30.8% and 19.5% at June 30, 2021 and 2020, respectively) represents bond reserve and other funds that are subject to external restrictions on how funds may be used.

The unrestricted portion of the Harbors Division's net position (9.6% and 12.7% at June 30, 2021 and 2020, 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 Harbors Division's financial position. Net position or the amount of total assets and deferred outflows of resources that exceed liabilities and deferred inflows of resources amounted to $1,154.0 million at June 30, 2021, an increase in net position of $80.9 million or 7.5% from 2020. Net position or the amount of total assets and deferred outflows of resources that exceed liabilities and deferred inflows of resources amounted to $1,073.1 million at June 30, 2020, an increase in net position of $77.3 million or 7.8% from 2019.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2021 and 2020, the Harbors Division had $1,082.7 million and $1,037.8 million, respectively, invested in capital assets as shown below. There was a net increase (additions, deductions and depreciation) of $44.9 million in 2021 from the prior year, and a net increase in 2020 of $50.1 million from 2019.

Capital Assets
As of June 30, 2021, 2020 and 2019

	As of June 30			2021–2020		2020–2019	
	2021	2020	2019	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Land and land improvements	$ 642,506	$ 630,572	$ 626,053	$ 11,934	1.9 %	$ 4,519	0.7 %
Wharves	349,752	345,034	338,807	4,718	1.4 %	6,227	1.8 %
Other improvements	151,004	146,404	115,773	4,600	3.1 %	30,631	26.5 %
Buildings	141,593	125,754	125,782	15,839	12.6 %	(28)	(0.0)%
Equipment	27,350	28,156	28,686	(806)	(2.9)%	(530)	(1.8)%
Total at cost	1,312,205	1,275,920	1,235,101	36,285	2.8 %	40,819	3.3 %
Less: Accumulated depreciation	(508,154)	(472,448)	(440,439)	(35,706)	7.6 %	(32,009)	7.3 %
	804,051	803,472	794,662	579	0.1 %	8,810	1.1 %
Construction in progress	278,678	234,362	193,040	44,316	18.9 %	41,322	21.4 %
Total capital assets, net	$ 1,082,729	$ 1,037,834	$ 987,702	$ 44,895	4.3 %	$ 50,132	5.1 %

Depreciation expense amounted to $40.2 million and $32.5 million for the fiscal years 2021 and 2020, respectively, an increase of $7.7 million.

Major capital asset additions to the statewide harbors system for the year ended June 30, 2021 included the following projects:

- $8.7 million Relocate Maui District Office to the Old Kahului Railroad Building – Refurbished Office, new comfort station, and yard construction, Kahului Harbor, Maui Island
- $3.8 million New Office-Storage Facility, Kaunakakai Harbor, Molokai Island
- $3.6 million Subdivision and Infrastructure Improvements – Phase 1, KBPH, Oahu Island
- $2.0 million Electrical Upgrades for New Cranes, Piers 52 and 53, Honolulu Harbor, Oahu Island
- $2.0 million Drain, Roadway and Pedestrian Walkway Improvements at Piers 2 and 3, Nawiliwili Harbor, Kauai Island
- $1.3 million Security and Recovery Metal Shark Boats, Hilo, Kawaihae, Kahului, and Nawiliwili Harbors, Hawaii, Maui, and Kauai Islands, respectively
- $714,000 Maintenance Dredging at Pier 2, Kahului Harbor, Maui Island
- $508,000 Repair Rooftop Air Conditioning System at Pier 10, Honolulu Harbor, Oahu Island
- $492,000 Repair Air Conditioning System at Pier 1 Terminal, Kahului Harbor, Maui Island
- $840,000 Substructure and Concrete Joint Repairs at Pier 2, Nawiliwili Harbor, Kauai Island
- $665,000 Substructure and Fender Repairs at Pier 1, Honolulu Harbor, Oahu Island
- $556,000 Substructure Repairs at Pier 36, Honolulu Harbor, Oahu Island
- $101,000 Repair Pavement at Kaunakakai Harbor, Kaunakakai, Molokai Island
- $109,000 Repair Revetment at Causeway, Kaunakakai Harbor, Molokai Island
- $439,000 Pavement Repairs at Waapa Road and Pier 2 Apron, Nawiliwili Harbor, Kauai Island
- $225,000 Fender Repairs at Kaumalapau Harbor, Lanai Island
- $125,000 Remove Crane Rails & Provide Bullrails, Kaumalapau – 56% Provide Bullrails, Lanai Island

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

- $353.0 million Kapalama Container Terminal ("KCT") Wharf and Dredging Design (Phase 2), Honolulu Harbor, Oahu Island

- $175.8 million KCT Yard Construction (Phase 1), Honolulu Harbor, Oahu Island

  Historical growth of the State economy has generated increased container volumes at an average annual rate of 2.2%. Container terminal capacity at Honolulu Harbor would need to increase by 550,000 twenty-foot equivalent units ("TEUs") from the current approximate volume of 950,000 TEUs to approximately 1,500,000 TEUs to accommodate the projected growth through 2039. Considering the land constraints of Honolulu Harbor, the availability of the Kapalama Military Reservation site presented an ideal and unique opportunity to satisfy the anticipated increase in container volume. The new KCT Facility is being constructed to resolve the shortage of cargo capacity issue.

  The new KCT Yard Construction Project, H.C. 10502 Phase 1, is the construction of a new container yard of approximately 66 acres of pavement, installation of new infrastructure (water, sewer and electrical), fencing, retaining walls, lighting, pavement markings, and signage. Although this phase is substantially complete as of December 2020, portions of the project have been deferred to align and synchronize with H.C. 10498 Phase 2 of the new KCT Project.

  Notice-to-proceed for the new KCT Wharf and Dredging Project, H.C. 10498 Phase 2, was issued on January 4, 2021. This phase of the project features the waterside construction at Piers 40–43 in Honolulu Harbor that will add 18.5 acres of fast-land, including 1,860 linear feet of new berthing space for two container ships to dock simultaneously and up to six gantry cranes. The work also includes dredging along the waterfront and up to the federal channel and widening the water basin between Piers 40 and 41, creating important barge berthing space along Pier 41. The KCT Phase 2 project will address sea-level rise by increasing the pier height that will match the Phase 1 elevated backlands in construction. All of this will provide a more efficient way to move containers within the harbor, remove draying containers from the overseas terminal to the inter-island terminal and off the adjacent highway, improve efficiency in the transfer of cargo to the neighbor island ports, and reduce congestion. The project construction has faced coral mitigation challenges and is estimated for completion in the Spring of 2024.

- $5.3 million Relocate Harbors Police to Former Fire Station, Pier 15, Honolulu Harbor, Oahu Island

- $4.3 million Demolition of Water Tower and Other Related Water System Improvements, Hilo Harbor, Hawaii Island

- $1.8 million Infrastructure Improvements at Pier 1 Operational Area and Ala Luina Street, Phase 1, Kahului Harbor, Maui Island
- $1.6 million Pier 3 Shed Demolition and Other Improvements, Nawiliwili Harbor, Kauai Island

Major capital asset additions to the statewide harbors system for the year ended June 30, 2020 included the following:

- $29.68 million Energy Savings Performance Contract, Statewide
- $233,400 Install Air Curtains at Pier 2 Terminal, Honolulu Harbor, Oahu Island
- $340,000 Repair Light Poles at Pier 1, Kahului Harbor, Maui Island
- $377,800 Repair Roll-Up Doors at Pier 2 Shed, Nawiliwili Harbor, Kauai Island
- $411,400 Repair Concrete Pavement at Pier 39, Honolulu Harbor, Oahu Island
- $429,900 Repair Fender Systems at Piers 1 and 3, Nawiliwili Harbor, Kauai Island
- $374,200 Substructure Repairs at Piers 24–26, Honolulu Harbor, Oahu Island
- $619,600 Substructure Repairs at Piers 8–10, Honolulu Harbor, Oahu Island
- $498,500 Repair Concrete Bridge at Kawaihae Harbor, Hawaii Island
- $1,697,600 Substructure and Waterline Repairs at Piers 33 and 34, Honolulu Harbor, Oahu Island
- $742,500 Repair Tile Roof at Pier 11, Honolulu Harbor, Oahu Island
- $301,000 Substructure Repair at Kaunakakai Harbor, Molokai Island
- $484,200 Repair Fenders at Pier 2, Hilo Harbor, Hawaii Island
- $224,800 Repair Fence, Kalaeloa Barbers Point Harbor, Oahu Island
- $871,400 Substructure and Fender Repairs at Piers 9 and 10, Honolulu Harbor, Oahu Island
- $275,300 Repair Pavement at Kaumalapau Harbor, Lanai Island
- $283,600 Substructure Repairs at Kaunakakai Harbor, Molokai Island
- $242,800 Repair Siding at Pier 2 Shed, Nawiliwili Harbor, Kauai Island
- $311,700 Replace Roll-Up Doors at Pier 2 Shed, Nawiliwili Harbor, Kauai Island

The Harbors Division is committed under contracts awarded for capital improvement projects totaling $426.1 million as of June 30, 2021.

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

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, 2021 and 2020, outstanding harbor system revenue bonds amounted to $363.6 million and $259.5 million, respectively.

The Harbors Division executed a contract with BofA Securities, Inc. on November 19, 2020 to underwrite a total of $266,550,000 of Hawaii Harbors System Revenue Bonds ("Revenue Bonds"). This transaction allowed for a public sale of $147,520,000 Series A of 2020 Revenue Bonds (AMT), $15,685,000 Series B of 2020 Revenue Bonds (Taxable), and $103,345,000 Series C of 2020 Revenue Bonds (Non-AMT); all these Series are the 2020 Revenue Bonds. On December 2, 2020, the closing date for this public sale of the 2020 Revenue Bonds, proceeds of approximately $165,800,000 from the Series A of 2020 Revenue Bonds (AMT) and $9,200,000 from the Series B of 2020 Revenue Bonds (Taxable) were used to provide funding for the Harbors Division Capital Improvement Program, primarily for the KCT Phase 1 and Phase 2 projects.

The remaining proceeds obtained from the Series A of 2020 and the Series B of 2020 Revenue Bonds were used to partially refund existing Series A of 2010 and Series B of 2010 Revenue Bonds balances at the time of refunding. The Series C of 2020 Revenue Bonds (Non-AMT) refunded the remaining portion of the existing Series A of 2010 Revenue Bonds (Non-AMT) balances at the time of refunding.

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, 2021 and 2020, outstanding reimbursable general obligation bonds amounted to $16.2 million and $18.7 million, respectively. There have been no issuances of reimbursable general obligation bonds to finance the harbor and waterfront improvements during fiscal years 2021 and 2020.

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

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 2020 Revenue Bonds are secured by a cash deposit of $13.9 million which, for the purposes of such subaccount, is equal to 50% of the maximum bond service for the 2020 Revenue Bonds for any future fiscal year.

As of June 30, 2021, the underlying ratings for harbor system revenue bonds were as follows:

- Moody's Investors Service Aa3
- Fitch IBCA, Inc. AA-

Ratings made by 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, 2021 was 5.20 under the 1997 Certificate as compared to the ratio of 5.06 as of June 30, 2020.

Request for Information

This 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, 2021 and 2020

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 170,666,120	$ 199,315,946
Receivables, less allowance for doubtful accounts of $6,430,606 in 2021 and $10,602,702 in 2020	20,853,958	15,922,147
Notes receivable, less allowance for doubtful accounts of $1,925,012 in 2021 and $2,179,610 in 2020	254,598	409,478
Interest receivable	135,901	772,351
Due from other State agencies	694,569	800,618
Other current assets	412	7,049
	192,605,558	217,227,589
Restricted assets		
Cash and cash equivalents – restricted for debt service payments and reserve requirements	35,576,699	34,357,460
Total current assets	228,182,257	251,585,049
Noncurrent assets		
Cash and cash equivalents – restricted for		
Capital improvement projects	394,257,082	175,167,453
Other	18,610,285	13,512,317
	412,867,367	188,679,770
Capital assets		
Nondepreciable assets	314,252,844	311,862,647
Depreciable assets, net	489,798,822	491,608,949
Construction in progress	278,677,798	234,362,174
Total capital assets, net	1,082,729,464	1,037,833,770
Total noncurrent assets	1,495,596,831	1,226,513,540
Total assets	1,723,779,088	1,478,098,589
Deferred Outflows of Resources		
Related to pension	6,619,531	5,930,636
Related to other postemployment benefits	2,427,972	3,574,238
Deferred charge on refunding, net	1,260,363	1,488,720
Total deferred outflows of resources	10,307,866	10,993,594

The accompanying notes are an integral part of these financial statements.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Liabilities		
Current liabilities (payable from current assets)		
Accounts payable	$ 5,303,077	$ 6,924,874
Contracts payable, including retainages	852,678	680,526
Capital lease obligation	1,139,923	1,023,605
Accrued interest payable – capital lease obligation	483,446	506,711
Accrued workers' compensation	237,137	276,241
Accrued vacation	697,591	626,993
Due to other State agencies	7,963,363	7,080,644
	16,677,215	17,119,594
Current liabilities (payable from restricted assets)		
Contracts payable, including retainages	17,616,251	8,964,065
Revenue bonds payable, current maturities	18,037,162	17,298,935
General obligation bonds payable, current maturities	2,572,554	2,450,903
Accrued interest payable – revenue bonds	7,603,549	5,612,427
	45,829,516	34,326,330
Total current liabilities	62,506,731	51,445,924
Long-term liabilities		
Accrued workers' compensation	937,848	1,103,460
Net pension liability	40,863,196	37,288,062
Net other postretirement benefits liability	36,178,816	38,397,222
Long-term debt, less current maturities		
Revenue bonds payable, net	395,017,984	242,138,216
General obligation bonds payable	13,666,488	16,239,042
Capital lease obligation	22,385,439	23,525,362
Accrued vacation	2,306,676	2,091,972
Security deposits	3,307,376	2,821,646
Total long-term liabilities	514,663,823	363,604,982
Total liabilities	577,170,554	415,050,906
Deferred Inflows of Resources		
Related to pension	120,996	373,327
Related to other postemployment benefits	2,800,475	527,199
Total deferred inflows of resources	2,921,471	900,526
Net Position		
Net investment in capital assets	687,704,670	727,682,362
Restricted – revenue bond requirements	35,576,699	34,357,460
Restricted – for capital improvement projects	320,106,438	175,167,453
Unrestricted	110,607,122	135,933,476
Total net position	$ 1,153,994,929	$ 1,073,140,751

The accompanying notes are an integral part of these 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, 2021 and 2020

	2021	2020
Operating revenues, net		
Services	$ 153,854,064	$ 147,896,202
Rentals	26,895,625	27,120,024
Others	1,310,540	1,116,059
	182,060,229	176,132,285
Operating expenses		
Depreciation	40,217,228	32,453,079
Personnel services	25,819,301	23,692,386
Harbor operations and maintenance	16,571,690	20,398,777
State of Hawaii surcharge for central service expenses	6,648,161	7,851,763
General administration	3,678,575	2,674,851
Department of Transportation general administration expenses	1,238,817	1,443,588
	94,173,772	88,514,444
Operating income	87,886,457	87,617,841
Nonoperating revenues (expenses)		
Interest expense	(11,939,543)	(13,597,752)
Interest income	1,677,671	7,490,378
Loss on disposal of capital assets	(1,753,485)	(4,377,494)
Bond issuance costs	(1,182,140)	-
	(13,197,497)	(10,484,868)
Income before capital contributions	74,688,960	77,132,973
Capital contributions	6,165,218	163,225
Change in net position	80,854,178	77,296,198
Net position		
Beginning of year	1,073,140,751	995,844,553
End of year	$ 1,153,994,929	$ 1,073,140,751

The accompanying notes are an integral part of these 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, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Cash received from customers	$ 177,769,028	$ 179,789,862
Cash paid to suppliers	(28,833,113)	(34,004,534)
Cash paid to employees	(21,627,717)	(20,922,873)
Net cash provided by operating activities	127,308,198	124,862,455
Cash flows from capital and related financing activities		
Proceeds from bond issuance	175,006,065	-
Restricted cash disbursement	(6,423,192)	-
Reimbursement received for capital asset construction	1,465,218	-
Acquisition and construction of capital assets	(73,514,221)	(102,915,854)
Principal paid on bonds	(19,740,903)	(19,701,771)
Interest paid on bonds and capital lease obligation	(8,634,671)	(13,284,346)
Principal paid on capital lease obligation	(1,023,605)	(914,562)
Net cash provided by (used in) capital and related financing activities	67,134,691	(136,816,533)
Cash flows provided by investing activities		
Interest received	2,314,121	14,745,613
Net increase in cash and cash equivalents	196,757,010	2,791,535
Cash and cash equivalents		
Beginning of year	422,353,176	419,561,641
End of year	$ 619,110,186	$ 422,353,176

The accompanying notes are an integral part of these 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, 2021 and 2020

	2021	2020
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 87,886,457	$ 87,617,841
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	40,217,228	32,453,079
Provision for (recovery of) doubtful accounts	(4,172,095)	5,970,853
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Receivables	(498,787)	(5,077,450)
Other current assets	6,637	(7,049)
Deferred outflows of resources	457,371	937,151
Payables	(1,449,645)	(1,901,632)
Accrued workers' compensation	(204,716)	304,635
Accrued vacation	285,302	56,756
Due to other State agencies	917,043	2,445,655
Security deposits	485,730	318,519
Net pension liability	3,575,134	2,174,203
Net other postretirement benefits liability	(2,218,406)	43,956
Deferred inflows of resources	2,020,945	(474,062)
Net cash provided by operating activities	$ 127,308,198	$ 124,862,455
Supplemental disclosure of noncash capital and related financing activities		
Amounts included in contracts payable for the acquisition of capital assets	$ 17,616,251	$ 8,964,065
Bond proceeds deposited into escrow	148,473,737	-
Bond issuance costs settled in escrow	1,182,140	-
Noncash capital contributions	4,700,000	163,225
Amortization of bond premium, discount, and deferred charge on refunding	(1,900,585)	(627,483)
Other assets utilized for the acquisition of capital assets	-	1,287,535

The accompanying notes are an integral part of these financial statements.

1. Financial Reporting Entity

In 1959, the Harbors Division (the "Harbors Division") was established within the Department of Transportation of the State of Hawaii (the "Department"). 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 Department Director.

The Harbors Division is part of the Department, 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 changes in its financial position and cash flows of its business-type activities.

The "Certificate of the Director of Transportation Providing for the Issuance of 1997 State of Hawaii Harbor Revenue Bonds," dated March 1, 1997 (the "1997 Certificate"), defines the "Public 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

Basis of Presentation

The financial statements of the Harbors Division have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Harbors Division's significant accounting policies are described below.

Measurement Focus and Basis of Accounting

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 the State Treasury.

Amounts Held in the State Treasury

The State's investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP. Investment earnings are allocated to the pool participants, including the Harbors Division, based upon their equity interest in the pooled monies.

Fair Value Measurements

The Harbors Division measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value, as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- **Level 3** – Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or Level 2 inputs are not available.

Restricted Assets

Restricted assets consist primarily of amounts for the principal and interest accumulated to make debt service payments, amounts restricted for capital improvement projects including unspent bond proceeds, amounts restricted for bond reserve requirements, security deposits, customer advances, and amounts owed to other State agencies for specific purposes.

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 loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and workers' compensation. 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 can be reasonably estimated. The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, non-incremental estimates (based on projections of historical developments) of claims incurred but not reported, and non-incremental 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.

The U.S. Centers for Disease Control and Prevention's ("CDC") Conditional Sail Order issued in October 2020, which replaced the CDC's March 2020 No Sail Order and Suspension of Further Embarkation, is still in effect. While the Harbors Division expects that the COVID-19 pandemic will continue to impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

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.

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 addition or deduction to the related liabilities in the statements of net position. Amortization of debt premium (discount) is included in interest expense in the statement of revenues, expenses, and changes in net position.

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 charge on refunding amounted to approximately $1,260,000 and $1,489,000 at June 30, 2021 and 2020, respectively, and are reported as deferred outflows of resources in the statements of net position.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The Harbors Division defers recognition of the charge on refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the effective interest rate method. The deferred outflows and inflows of resources related to pensions and other postemployment benefits ("OPEB") resulted from changes in assumptions, differences between expected and actual experience, changes in proportion, and differences between contributions and proportionate share of contributions, which will be amortized over the average remaining service lives of the plans' members. Deferred outflows and inflows of resources are also reported for the net difference between projected and actual earnings on pension and OPEB plan investments, which will be amortized over five years, and the Harbors Division's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the pension and OPEB plans, which will be recognized as a reduction of the net pension liability and net OPEB liability in the subsequent fiscal year.

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 Harbors Division's investment in capital assets, less related indebtedness outstanding to acquire those capital assets.

- **Restricted** – Represents revenue bond reserves, capital project funds, and other funds that are subject to external restrictions by creditors or other governments on how they may be used.

- **Unrestricted** – May be used to meet any of the Harbors 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 (recovery of) bad debts for the years ended June 30, 2021 and 2020 was approximately ($4,172,000) and $5,971,000, respectively. Operating revenues also exclude revenues related to capital and related financing activities, noncapital financing activities, and investing activities.

As of June 30, 2021, the Harbors Division has pledged its future operating revenues, net of certain operating expenses, to repay $363,570,000 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 $510,002,000 as of June 30, 2021. 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 $28,350,000 and $139,669,000, respectively, for the year ended June 30, 2021, and approximately $28,940,000 and $132,041,000, respectively, for the year ended June 30, 2020.

Operating Expenses
All expenses related to operating the Harbors Division are reported as operating expenses. Interest income, interest expense, loss on disposal of capital assets, and the amortization of bond premium, discount, and deferred charge on refunding 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.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Harbors Division's participation in the Employees' Retirement System of the State of Hawaii (the "ERS"), and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. The ERS's investments are reported at fair value.

Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Harbors Division's participation in the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The EUTF's investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Recently Issued Accounting Pronouncements

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Harbors Division is currently evaluating the impact that this Statement will have on its financial statements.

GASB Statement No. 92

The GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective at multiple periods depending on when certain Statements are implemented, postponed by GASB Statement No. 95 for one year. The Harbors Division is currently evaluating the impact that this Statement will have on its financial statements.

GASB Statement No. 94

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements for this Statement are effective for reporting periods beginning after June 15, 2022. The Harbors Division is currently evaluating the impact that this Statement will have on its financial statements.

GASB Statement No. 96

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The Harbors Division is currently evaluating the impact that this Statement will have on its financial statements.

Reclassifications

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation. Such reclassifications have no impact on the 2020 change in net position as previously reported.

3. Cash and Cash Equivalents

Equity in Cash and Cash Equivalents and Investments in State Treasury

The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State which, in the Director’s judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge, as collateral, government securities held in the name of the State for deposits, not covered by federal deposit insurance.

GAAP requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Harbors Division. However, as these funds are held in the State investment pool, the Harbors Division does not manage these investments and the types of investments, and related interest rate, credit and custodial risks are not determinable at the Harbors Division's level. The risk disclosures and fair value leveling table of the State's investment pool are included in the State's Annual Comprehensive Financial Report ("ACFR") which may be obtained from the Department of Accounting and General Services' ("DAGS") website: http://ags.hawaii.gov/accounting/annual-financial-reports/.

Cash and cash equivalents at June 30, 2021 and 2020 consisted of the following:

	2021	2020
Amounts held in State Treasury	$ 618,393,720	$ 422,254,862
Petty cash and other	716,466	98,314
	$ 619,110,186	$ 422,353,176

Such amounts are reflected in the statements of net position at June 30, 2021 and 2020 as follows:

	2021	2020
Current assets		
Unrestricted	$ 170,666,120	$ 199,315,946
Restricted		
Revenue bond debt service payments	21,723,549	22,902,427
Revenue bond cash reserve requirements	13,853,150	11,455,033
Noncurrent assets		
Restricted		
Capital improvement projects		
Construction – special purpose funds	320,106,438	175,167,453
Construction – revenue bonds	74,150,644	-
Other bond reserve requirements and security deposits	18,610,285	13,512,317
	$ 619,110,186	$ 422,353,176

4. Capital Assets

Capital asset activity for the years ended June 30, 2021 and 2020 was as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Nondepreciable assets				
Land and land improvements	$ 311,862,647	$ 2,390,197	$ -	$ 314,252,844
Depreciable assets				
Land improvements	318,708,383	9,544,711	-	328,253,094
Wharves	345,034,409	4,717,276	-	349,751,685
Other improvements	146,403,464	4,601,117	-	151,004,581
Buildings	125,754,120	15,839,065	-	141,593,185
Equipment	28,156,266	3,796,746	(4,603,020)	27,349,992
Total at cost	1,275,919,289	40,889,112	(4,603,020)	1,312,205,381
Less: Accumulated depreciation for				
Land improvements	138,575,951	14,220,148	-	152,796,099
Wharves	184,182,369	12,134,106	-	196,316,475
Other improvements	74,235,504	7,404,523	-	81,640,027
Buildings	55,621,095	4,483,874	-	60,104,969
Equipment	19,832,774	1,974,577	(4,511,206)	17,296,145
Total accumulated depreciation	472,447,693	40,217,228	(4,511,206)	508,153,715
Construction in progress	234,362,174	85,299,698	(40,984,074)	278,677,798
Total capital assets, net	$ 1,037,833,770	$ 85,971,582	$ (41,075,888)	$ 1,082,729,464

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Nondepreciable assets				
Land and land improvements	$ 311,813,847	$ 48,800	$ -	$ 311,862,647
Depreciable assets				
Land improvements	314,239,355	4,469,028	-	318,708,383
Wharves	338,806,639	6,346,712	(118,942)	345,034,409
Other improvements	115,772,962	30,630,502	-	146,403,464
Buildings	125,782,124	3,869,233	(3,897,237)	125,754,120
Equipment	28,686,030	458,154	(987,918)	28,156,266
Total at cost	1,235,100,957	45,822,429	(5,004,097)	1,275,919,289
Less: Accumulated depreciation for				
Land improvements	127,534,670	11,041,281	-	138,575,951
Wharves	175,282,479	8,899,890	-	184,182,369
Other improvements	64,542,278	9,693,226	-	74,235,504
Buildings	54,764,750	976,302	(119,957)	55,621,095
Equipment	18,315,362	1,842,380	(324,968)	19,832,774
Total accumulated depreciation	440,439,539	32,453,079	(444,925)	472,447,693
Construction in progress	193,040,322	86,668,927	(45,347,075)	234,362,174
Total capital assets, net	$ 987,701,740	$ 100,038,277	$ (49,906,247)	$ 1,037,833,770

5. Long-Term Liabilities

The changes in long-term liabilities were as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021	Current	Noncurrent
Accrued workers' compensation	$ 1,379,701	$ 32,421	$ 237,137	$ 1,174,985	$ 237,137	$ 937,848
Accrued vacation	2,718,965	1,330,444	1,045,142	3,004,267	697,591	2,306,676
Capital lease obligation	24,548,967	-	1,023,605	23,525,362	1,139,923	22,385,439
Security deposits	2,821,646	721,867	236,137	3,307,376	-	3,307,376
Net pension liability	37,288,062	4,065,887	490,753	40,863,196	-	40,863,196
Net other postretirement benefits liability	38,397,222	774,975	2,993,381	36,178,816	-	36,178,816
General obligation bonds	18,689,945	-	2,450,903	16,239,042	2,572,554	13,666,488
Revenue bonds	259,490,000	266,550,000	162,470,000	363,570,000	14,120,000	349,450,000
Unamortized premium (discount), net	(52,849)	51,688,751	2,150,756	49,485,146	3,917,162	45,567,984
Revenue bonds, net	259,437,151	318,238,751	164,620,756	413,055,146	18,037,162	395,017,984
	$ 385,281,659	$ 325,164,345	$ 173,097,814	$ 537,348,190	$ 22,684,367	$ 514,663,823

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Current	Noncurrent
Accrued workers' compensation	$ 1,075,066	$ 580,876	$ 276,241	$ 1,379,701	$ 276,241	$ 1,103,460
Accrued vacation	2,662,209	1,028,881	972,125	2,718,965	626,993	2,091,972
Capital lease obligation	25,463,529	-	914,562	24,548,967	1,023,605	23,525,362
Security deposits	2,503,127	459,050	140,531	2,821,646	-	2,821,646
Net pension liability	35,113,859	4,588,435	2,414,232	37,288,062	-	37,288,062
Net other postretirement benefits liability	38,353,266	3,127,945	3,083,989	38,397,222	-	38,397,222
General obligation bonds	21,026,716	-	2,336,771	18,689,945	2,450,903	16,239,042
Revenue bonds	276,855,000	-	17,365,000	259,490,000	17,290,000	242,200,000
Unamortized premium (discount), net	(37,586)	-	15,263	(52,849)	8,935	(61,784)
Revenue bonds, net	276,817,414	-	17,380,263	259,437,151	17,298,935	242,138,216
	$ 403,015,186	$ 9,785,187	$ 27,518,714	$ 385,281,659	$ 21,676,677	$ 363,604,982

6. Revenue Bonds Payable

Pursuant to authorization from the State Legislature, the Department Director 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 Department Director and the State during specific years at prices ranging from 102% to 100% of face value.

On December 2, 2020, the Harbors Division issued $147,520,000 Series A of 2020 Revenue Bonds (AMT), $15,685,000 Series B of 2020 Revenue Bonds (Taxable), and $103,345,000 Series C of 2020 Revenue Bonds (Non-AMT); all these Series are the 2020 Revenue Bonds. Proceeds of approximately $165,800,000 from the Series A of 2020 Revenue Bonds (AMT) and $9,200,000 from the Series B of 2020 Revenue Bonds (Taxable) were used to provide funding for the Harbors Division Capital Improvement Program, primarily for the Kapalama Container Terminal Phase 1 and Phase 2 projects.

The remaining proceeds obtained from the 2020 Revenue Bonds were used to refund, on a current basis, $140,395,000 in existing Series A of 2010 and $4,785,000 in Series B of 2010 Revenue Bonds. The refunding of Series A of 2010 and Series B of 2010 Revenue Bonds provided net present value savings of approximately $46,700,000.

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2021:

				Current			
Year of Issue	Final Redemption Date	Interest Rate	Original Amount of Issue	Principal Due July 1, 2021	Principal Due January 1, 2022	Total Current	Noncurrent
2013	July 1, 2029	3.25%	$ 23,615,000	$ 60,000	$ -	$ 60,000	$ 13,285,000
2016	January 1, 2031	1.99 – 3.09%	105,525,000	2,605,000	5,495,000	8,100,000	75,575,000
2020	July 1, 2040	0.60 – 5.00%	266,550,000	5,960,000	-	5,960,000	260,590,000
			$ 395,690,000	$ 8,625,000	$ 5,495,000	14,120,000	349,450,000
				Unamortized premium, net		3,917,162	45,567,984
						$ 18,037,162	$ 395,017,984

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2020:

				Current			
Year of Issue	Final Redemption Date	Interest Rate	Original Amount of Issue	Principal Due July 1, 2020	Principal Due January 1, 2021	Total Current	Noncurrent
2010	July 1, 2040	3.00 – 5.75%	$ 201,390,000	$ 9,340,000	$ -	$ 9,340,000	$ 145,180,000
2013	July 1, 2029	3.25%	23,615,000	60,000	-	60,000	13,345,000
2016	January 1, 2031	1.99 – 3.09%	113,660,000	3,625,000	4,265,000	7,890,000	83,675,000
			$ 338,665,000	$ 13,025,000	$ 4,265,000	17,290,000	242,200,000
				Unamortized premium (discount), net		8,935	(61,784)
						$ 17,298,935	$ 242,138,216

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

	Principal	Interest	Total
Years ending June 30,			
2022	$ 14,120,000	$ 14,230,000	$ 28,350,000
2023	20,270,000	12,975,000	33,245,000
2024	15,090,000	12,616,000	27,706,000
2025	15,510,000	12,196,000	27,706,000
2026	16,045,000	11,660,000	27,705,000
2027–2031	89,980,000	48,542,000	138,522,000
2032–2036	110,730,000	27,792,000	138,522,000
2037–2041	81,825,000	6,421,000	88,246,000
	$ 363,570,000	$ 146,432,000	$ 510,002,000

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 twelve-month and six-month periods, respectively, preceding the date on which the payments are due. Accordingly, the debt service requirements include reserves of approximately $21,724,000 as of June 30, 2021 for principal payments of $8,625,000 and $5,495,000 due on July 1, 2021 and January 1, 2022, respectively, and for interest payments of approximately $7,604,000 due on July 1, 2021.

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 twelve 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 twelve 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 twelve months, and (iii) the minimum sinking fund payments for all Revenue Bonds required to be made during such twelve months; and

(2) Without consideration of other funds, shall be at least equal to 1.00 times the bond service for such twelve 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 approximately $28,350,000. Net revenues of the Public Undertaking, as defined by the 1997 Certificate amounted to approximated $147,327,000 or 5.20 times the minimum net revenue requirement for the year ended June 30, 2021, and $146,311,000 or 5.06 times the minimum net revenue requirement for the year ended June 30, 2020.

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, 2021 and 2020.

(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, 2021 and 2020.

(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), the Department 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 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 4.00% to 5.00%.

Reimbursable general obligation bonds are general obligations of the State, but since the proceeds were used to finance the harbor and waterfront improvements, the Harbors Division is required to reimburse the State's general fund for the payment of principal and interest on such bonds. As of June 30, 2021 and 2020, outstanding reimbursable general obligation bonds amounted to approximately $16,239,000 and $18,690,000, respectively.

Debt service requirements to maturity for the reimbursable general obligation bonds are as follows:

	Principal	Interest	Total
Years ending June 30,			
2022	$ 2,573,000	$ 808,000	$ 3,381,000
2023	2,701,000	680,000	3,381,000
2024	2,835,000	546,000	3,381,000
2025	2,977,000	404,000	3,381,000
2026	3,125,000	256,000	3,381,000
2027–2028	2,028,000	144,000	2,172,000
	$ 16,239,000	$ 2,838,000	$ 19,077,000

9. Capital Lease Obligation

The Harbors Division entered into an equipment lease purchase agreement to fund the installation and acquisition of energy conservation measures at selected Harbors Division locations. Proceeds of approximately $26,246,000 were deposited into an acquisition fund held in trust by an acquisition fund custodian to provide for future payments as requested by the Harbors Division. The agreement also provided for the financing of interest expense through October 1, 2016 approximating $747,000, which was applied toward the principal of the capital lease obligation. The capital lease obligation amounted to approximately $23,525,000 and $24,549,000 at June 30, 2021 and 2020, respectively. Annual lease payments commenced on October 1, 2017 and will continue through October 1, 2032 at an interest rate of 2.74%. Costs incurred for the installation and acquisition of energy conservation measures through June 30, 2020 were capitalized to other improvements and approximated $28,952,000, net of related expense of $23,000, which includes additional capitalized interest of $1,983,000 for the period October 2, 2016 through June 30, 2019. Amortization of equipment acquired under the agreement is included with depreciation expense. There were no unused proceeds in the acquisition fund at June 30, 2021 and 2020.

Future minimum lease commitments are as follows:

	Principal	Interest	Total
Years ending June 30,			
2022	$ 1,140,000	$ 645,000	$ 1,785,000
2023	1,264,000	613,000	1,877,000
2024	1,396,000	579,000	1,975,000
2025	1,537,000	540,000	2,077,000
2026	1,687,000	498,000	2,185,000
2027–2031	11,035,000	1,707,000	12,742,000
2032–2033	5,466,000	223,000	5,689,000
	$ 23,525,000	$ 4,805,000	$ 28,330,000

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 August 2087. 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, 2021:

Years ending June 30,	
2022	$ 8,243,000
2023	8,282,000
2024	8,178,000
2025	8,086,000
2026	8,168,000
2027–2031	39,089,000
2032–2036	29,867,000
2037–2041	25,315,000
2042–2046	17,244,000
2047–2051	7,903,000
2052–2056	7,723,000
2057–2061	6,085,000
2062–2066	5,137,000
2067–2071	5,137,000
2072–2076	5,137,000
2077–2081	5,137,000
2082–2086	5,137,000
2087–2088	1,160,000
	$ 201,028,000

The above schedule includes estimated future rental revenue for certain leases beyond their first 15 years. Estimates are based on a continuation of rental revenue with no increase or decrease made due to rental re-openings after the 15th year in which rental rates will be based upon the prevailing fair market appraised value, which in most cases will be an increased amount.

11. Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by Hawaii Revised Statues ("HRS") Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at the ERS website: http://ers.ehawaii.gov/resources/financials.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement plans. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

  Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

  Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

- *Death Benefits* – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/ reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

  Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

- *Disability and Death Benefits* – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions
Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal years 2021 and 2020 were 24% and 22%, respectively. Contributions to the ERS from the Harbors Division approximated $3,412,000 and $2,691,000 for the years ended June 30, 2021 and 2020, respectively.

Pursuant to Act 17, SLH 2017, employer contributions from the State and counties increased over four years beginning July 1, 2017. On July 1, 2020, the rate for police officers and firefighters increased to 41%, and the rate for all other employees increased to 24%.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension 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 pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by GAAP pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's ACFR.

At June 30, 2021 and 2020, the Harbors Division reported a net pension liability of $40,863,000 and $37,288,000, respectively, for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Harbors Division's proportion of the net pension liability was based on a projection of the Harbors Division's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined.

At June 30, 2021 and 2020, the Harbors Division's proportionate share of the State's net pension liability was 0.48% and 0.47%, respectively.

There were no changes in actuarial assumptions as of June 30, 2019 to June 30, 2020. There were no changes between the measurement date, June 30, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the proportionate share of the State's net pension liability.

For the years ended June 30, 2021 and 2020, the Harbors Division recognized pension expense of approximately $6,046,000 and $5,594,000, respectively.

At June 30, 2021 and 2020, the Harbors Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2021		
Difference between actual and expected experience	$ 490,034	$ -
Net difference between projected and actual earnings on pension plan investments	1,479,481	-
Changes of assumptions	994,938	559
Changes in proportion and differences between employer contributions and proportionate share of contributions	242,682	120,437
Contributions subsequent to the measurement date	3,412,396	-
	$ 6,619,531	$ 120,996
2020		
Difference between actual and expected experience	$ 671,567	$ 51,626
Net difference between projected and actual earnings on pension plan investments	-	127,669
Changes of assumptions	2,482,977	621
Changes in proportion and differences between employer contributions and proportionate share of contributions	85,339	193,411
Contributions subsequent to the measurement date	2,690,753	-
	$ 5,930,636	$ 373,327

At June 30, 2021, the $3,412,000 reported as deferred outflows of resources related to pensions resulting from the Harbors Division’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30,	
2022	$ 1,244,668
2023	636,204
2024	688,253
2025	506,285
2026	10,729
	$ 3,086,139

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on August 12, 2019, based on the 2018 Experience Study for the five-year period from July 1, 2013 through June 30, 2018:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annual including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2019 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2019 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of the Pub-2010 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS's Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage.

The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Strategic allocation (risk-based classes)		
Broad growth	63.0 %	7.9 %
Diversifying strategies	37.0 %	3.7 %
Total investments	100.0 %	

Discount Rate

The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Harbors Division's Proportionate Share of the State's Net Pension Liability to Changes in the Discount Rate

The following presents the Harbors Division's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Harbors Division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Harbors Division's proportionate share of the net pension liability	$ 52,494,000	$ 40,863,000	$ 31,274,000

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. The ERS complete financial statements are available at http://ers.ehawaii.gov/resources/financials.

Payables to the Pension Plan
The Harbors Division's employer contributions payable to the ERS by year-end was paid by June 30, 2021. Excess payments will be applied to amounts due in fiscal year 2022.

Required Supplementary Information and Disclosures
The State's ACFR includes the required disclosures and required supplementary information on the State's pension plan.

Postemployment Healthcare and Life Insurance Benefits

Plan Description
The State provides certain healthcare and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at https://eutf.hawaii.gov/reports/. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less 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 employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less 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 employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Employees Covered by Benefit Terms

At July 1, 2020, the State had the following number of plan members covered:

Inactive plan members or beneficiaries currently receiving benefits	37,767
Inactive plan members entitled to but not yet receiving benefits	7,576
Active plan members	50,831
Total plan members	96,174

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Harbors Division were approximately $1,645,000 and $2,993,000 for the years ended June 30, 2021 and 2020, respectively. The Harbors Division is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB 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 OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by GAAP pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's ACFR.

At June 30, 2021 and 2020, the Harbors Division reported a net OPEB liability of approximately $36,179,000 and $38,397,000, respectively. The net OPEB liability was measured as of July 1, 2020 and 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates.

At June 30, 2021 and 2020, the Harbors Division's proportionate share of the State's net OPEB liability was 0.41%.

There were no changes between the measurement date, July 1, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the Harbors Division's proportionate share of the State's net OPEB liability.

For the years ended June 30, 2021 and 2020, the Harbors Division recognized OPEB expense of approximately $2,846,000 and $2,771,000, respectively.

At June 30, 2021 and 2020, the Harbors Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2021		
Differences between expected and actual experience	$ -	$ 2,618,485
Changes in assumptions	389,065	181,990
Net differences between projected and actual earnings on OPEB plan investments	394,366	-
Contributions subsequent to the measurement date	1,644,541	-
	$ 2,427,972	$ 2,800,475
2020		
Differences between expected and actual experience	$ -	$ 527,199
Changes in assumptions	502,680	-
Net differences between projected and actual earnings on OPEB plan investments	78,177	-
Contributions subsequent to the measurement date	2,993,381	-
	$ 3,574,238	$ 527,199

At June 30, 2021, the $1,645,000 reported as deferred outflows of resources related to OPEB resulting from the Harbors Division's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30,	
2022	$ (404,683)
2023	(389,716)
2024	(385,893)
2025	(362,880)
2026	(470,472)
Thereafter	(3,400)
	$ (2,017,044)

Actuarial Assumptions

The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO*	Initial rate of 7.50% declining to a rate of 4.70% after 13 years
HMO*	Initial rate of 7.50% declining to a rate of 4.70% after 13 years
Contribution	Initial rate of 5.00% declining to a rate of 4.70% after 10 years
Dental	Initial rate of 5.00% for the first year; followed by 4.00% for all future years
Vision	Initial rate of 0.00% for the first year; followed by 2.50% for all future years
Life insurance	0.00%

* Blended rates for medical and prescription drugs.

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private equity	10.00 %	9.66 %
U.S. microcap	6.00 %	7.85 %
U.S. equity	14.00 %	6.23 %
Non-U.S. equity	16.00 %	7.72 %
Global options	6.00 %	4.65 %
Core real estate	10.00 %	5.98 %
Private credit	6.00 %	5.50 %
Core bonds	3.00 %	0.08 %
TIPS	5.00 %	0.11 %
Long treasuries	6.00 %	0.86 %
Alternative risk premia	5.00 %	1.56 %
Trend following	8.00 %	2.12 %
Reinsurance	5.00 %	4.34 %
Total investments	100.00 %	

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend Act 268 contributions for year ended June 30, 2021, and instead limit their contribution amounts to the OPEB benefits due. This temporary Act 268 suspension would not derail the plan's long-term funding progress. Even if Act 268 is suspended through the year ending June 30, 2025, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Act 229, SLH 2021 suspends the contribution requirement for fiscal years 2022 and 2023. The State has made its full Annual

Required Contributions in fiscal year 2021 and intends to make contributions for fiscal years 2022 and 2023. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. The EUTF complete financial statements are available at https://eutf.hawaii.gov/reports/.

Changes in the Harbors Division's Proportionate Share of the State's Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement dates, July 1, 2020 and July 1, 2019.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2019	$ 43,026,319	$ 4,673,053	$ 38,353,266
Service cost	926,180	-	926,180
Interest on the total OPEB liability	2,919,405	-	2,919,405
Difference between expected and actual experience	(24,308)	-	(24,308)
Changes of assumptions	234,639	-	234,639
Employer contributions	-	3,083,989	(3,083,989)
Net investment income	-	280,390	(280,390)
Benefit payments	(1,398,092)	(1,398,092)	-
Administrative expense	-	(1,926)	1,926
Other	-	649,507	(649,507)
Net changes	2,657,824	2,613,868	43,956
Balance at June 30, 2020	45,684,143	7,286,921	38,397,222
Service cost	907,009	-	907,009
Interest on the total OPEB liability	2,912,634	-	2,912,634
Difference between expected and actual experience	(2,666,632)	-	(2,666,632)
Changes of assumptions	(218,336)	-	(218,336)
Employer contributions	-	2,993,381	(2,993,381)
Net investment income	-	159,824	(159,824)
Benefit payments	(1,339,555)	(1,339,555)	-
Administrative expense	-	(1,128)	1,128
Other	-	1,003	(1,003)
Net changes	(404,880)	1,813,525	(2,218,405)
Balance at June 30, 2021	$ 45,279,263	$ 9,100,446	$ 36,178,817

Sensitivity of the Harbors Division's Proportionate Share of the State's Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the Harbors Division's net OPEB liability calculated using the discount rate of 7.00%, as well as what the Harbors Division's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Harbors Division's proportionate share of the net OPEB liability	$ 43,412,000	$ 36,179,000	$ 30,479,000

The following table presents the Harbors Division's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the State's net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Harbors Division's proportionate share of the net OPEB liability	$ 30,221,000	$ 36,179,000	$ 43,885,000

Payables to the OPEB Plan

The State's employer contributions payable to the EUTF by fiscal year-end was paid by June 30, 2021.

Required Supplementary Information and Disclosures

The State's ACFR includes the required disclosures and required supplementary information on the State's OPEB plan.

Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all State employees (excluding part-time, temporary and casual/seasonal), permits employees to defer a portion of their compensation 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 nor the Harbors Division's financial statements.

12. Risk Management

The State purchases policies to provide coverage for all state entities, including the Harbors Division. The State generally retains the first $1,000,000 per occurrence of property losses such as fires, and 3% of a property replacement cost value for catastrophic losses such as hurricanes, earthquakes, and floods, the first $5,000,000 with respect to general liability claims, and the first $500,000 of losses due to crime and $1,000,000 for cyber liability losses. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $200,000,000, except for terrorism, which is $100,000,000 per occurrence. The annual aggregate limit for general liability losses is $7,500,000 per occurrence for wrongful acts with a $12,500,000 aggregate limit for Products/Completed Operations, Error and Omission, and Employee Benefits Liability, $50,000,000 for cyber liability losses, and for crime losses, the limit per occurrence is $10,000,000 with no aggregate limit.

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, subject to a $5,000,000 deductible per occurrence.

The State generally self-insures for its automobile no-fault and workers' compensation losses. A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2021, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. Accrued workers' compensation amounted to approximately $1,175,000 and $1,380,000 at June 30, 2021 and 2020, respectively.

13. Ceded Lands

In 2006, the Legislature enacted Act 178, SLH 2006 ("Act 178"), to re-establish a mechanism for the Office of Hawaiian Affairs ("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.

The Harbors Division transferred $10,000,000 to the Budget & Finance Department in four quarterly installments pursuant to Governor Executive Order No. 06-06 during the years ended June 30, 2021 and 2020. The transfers are included in harbor operations costs in the accompanying statements of revenues, expenses, and changes in net position for the years ended June 30, 2021 and 2020.

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 $6,648,000 and $7,852,000 for the years ended June 30, 2021 and 2020, respectively.

The Harbors Division is assessed a percentage of the Department's general administration expenses. The assessments amounted to approximately $1,239,000 and $1,444,000 for the years ended June 30, 2021 and 2020, respectively.

Act 200, 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 Department 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 Aloha Tower Development Corporation ("ATDC") as the entity responsible for the management and implementation of the HMP under the Department's direction.

The State Legislature in its 2009 legislative session questioned ATDC's role and effectiveness and provided operational funding for only FY2010 of the FY2009–FY2011 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 Harbors Modernization Program, 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 the Department of Business, Economic Development and Tourism ("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 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 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.

15. Aloha Tower Development Corporation

ATDC is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex originally encompassed Piers 5–23 of Honolulu Harbor, but its boundaries were redefined by Act 152, SLH 2011. In September 1993, the Harbors Division entered into a ground master lease and a capital improvements, maintenance, operations and security agreement 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.

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, 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, 2021 and 2020 was approximately $2,180,000 and $2,589,000, respectively, and is included in notes receivable, net of allowance for doubtful accounts, for approximately $1,925,000 and $2,180,000 as of June 30, 2021 and 2020, respectively, in the accompanying statements of net position.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest of 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 a memorandum of understanding ("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 were performance-based and had not been met, terminated on January 1, 2014. Since the resolution of the owners' dispute within HLRP, HLRP has been reformulating its plans for improvements to the Marketplace's leasehold property.

Subsequent to the year ended June 30, 2014, the State, by its Department Interim Director, entered into a successor MOU with ATDC and HLRP whereby ATDC agreed to abate rent under the lease between ATDC and HLRP for the period retroactive to July 1, 2014 to June 30, 2015 in consideration for the construction of HLRP improvements to create student and faculty residences and various university spaces for HPU and to memorialize the understanding of the parties with respect to various aspects of its agreement.

The successor memorandum of understanding also amended the punch-list obligations owed to the Harbors Division which had a total value of $3.5 million, depending upon when actual payments are made by the operator within a six-year timeframe ended June 2017. The amendment provided that in consideration of ATDC's issuance of any renewed leases, HLRP shall pay the Harbors Division the sum of $1,750,000 on or before December 31, 2021.

16. 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, 2021 and 2020, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

17. 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 $449,451,000 and $139,243,000 at June 30, 2021 and 2020, respectively.

Accumulated Sick Leave
Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2021 and 2020, accumulated sick leave was approximately $6,318,000 and $6,027,000, respectively.

Environmental Issues

Iwilei District Participating Parties
The Harbors Division is subject to laws and regulations under the Hawaii Environmental Response Law ("HERL"), Chapter 128D, HRS, as amended, for being identified by the State Department of Health ("HDOH") as a potentially responsible party for petroleum contamination in the Honolulu Harbor/Iwilei area. Pursuant thereto, the Harbors Division, together with other parties, entered into a voluntary agreement with the HDOH to share 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. The remediation alternative selected involves the management of the contamination in-place with limited extraction, plume monitoring, active institutional controls including education/awareness and outreach of landowners, potential developers and utility operators, and reimbursement of future incremental project costs attributable to the contamination. However, 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 the environmental impact, (2) the undetermined allocation among the potentially responsible parties, and (3) the continued discussion with the regulatory authorities. Although it is not possible to reasonably estimate the Harbors Division's cost liability until these items have been resolved, the Harbors Division, in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, accrued only for the estimated cost of the studies and investigations allocated to the Harbors Division of approximately $1,681,000 as of June 30, 2021 and 2020.

Environmental Protection Agency
During December 2008, the United States Environmental Protection Agency ("USEPA") conducted an audit to determine Harbors Division's compliance with its small Municipal Separate Storm Sewer System General Permits. As a follow-up to this audit, on June 18, 2009, the USEPA issued an Administrative Order directing the Harbors Division to revise its Storm Water Management Plan, upgrade program inspections and procedures, improve documentation of related 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 Harbors Division premises on the island of Oahu.

In July 2012, the USEPA and the U.S. Department of Justice ("USDOJ") 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, HDOH, and the Department.

On September 18, 2014, the U.S. Department of Justice lodged a proposed Consent Decree with the United States District Court for the District of Hawaii in the lawsuit entitled United States of America et al. v. Hawaii Department of Transportation, Civil Case No. 1:14-cv-00408-JMS-KSC. The Department agreed to correct federal Clean Water Act violations at Honolulu and Kalaeloa Barbers Point Harbors on the island of Oahu, modify departmental administrative and operational procedures, and pay a civil penalty of $600,000 plus interest to the USDOJ and $600,000 plus interest to HDOH. Under the conditions of the Consent Decree, the Department is required to implement structural changes to management and a comprehensive stormwater management plan over the life of the Consent Decree. The Consent Decree was entered on November 5, 2014 and payments of $600,160 were remitted accordingly to each party. Currently, the Department and Harbors Division are in the process of requesting to exit the Consent Decree with the USEPA and HDOH. Moving forward, the Harbors Division expects to remain in compliance with relevant rules and regulations via the implementation of the enhanced stormwater management program.

The Harbors Division entered into an agreement with Weston Solutions, Inc., an international environmental consulting firm, to assist in negotiating the Compliance Measures for $900,000, which was paid as of June 30, 2017. In addition, the Harbors Division also entered into an agreement with EnviroServices and Training Center LLC ("ETC"), a Hawaii environmental consulting firm, to assist the Harbors Division in implementing the compliance measures and other environmentally related investigations at a cost of $1,000,000. Currently, the Harbors Division has entered into a second agreement with ETC to continue assisting the Harbors Division in implementing the Compliance Measures and other environmentally related investigations at a cost of $400,000, of which approximately $131,000 was paid as of June 30, 2021.

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.

Supplementary 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, 2021 **Schedule 1**

Unrestricted cash and cash equivalents	$ 170,666,120
Restricted cash and cash equivalents	
Construction – special purpose funds	320,106,438
Construction – revenue bonds	74,150,644
Revenue bond debt service payments	21,723,549
Cash reserve requirement for 2020 Series revenue bonds	13,853,150
Revenue bond harbors reserve and contingency account	10,897,658
Risk management and other	7,712,627
	448,444,066
	$ 619,110,186
With Director of Finance, State of Hawaii	$ 618,393,720
On hand	716,466
	$ 619,110,186

See accompanying independent auditors' report.

Revenue Bonds of the Public Undertaking

June 30, 2021 **Schedule 2**

	Final Redemption Date	Interest Rate	Original Amount of Issue	Balance at June 30, 2021 Current	Noncurrent	Total
Issue of 2013	July 1, 2029	3.25%	$ 23,615,000	$ 60,000	$ 13,285,000	$ 13,345,000
Issue of 2016 Series A	January 1, 2024	1.99%	14,565,000	2,125,000	4,385,000	6,510,000
Issue of 2016 Series B	January 1 , 2031	2.46% – 2.89%	68,535,000	3,370,000	51,425,000	54,795,000
Issue of 2016 Series D	July 1, 2027	3.09%	22,425,000	2,605,000	19,765,000	22,370,000
Issue of 2020 Series A	July 1, 2037	4.00% – 5.00%	147,520,000	2,430,000	145,090,000	147,520,000
Issue of 2020 Series B	July 1, 2024	0.60% – 1.15%	15,685,000	3,530,000	12,155,000	15,685,000
Issue of 2020 Series C	July 1, 2040	4.00% – 5.00%	103,345,000	-	103,345,000	103,345,000
			$ 395,690,000	$ 14,120,000	$ 349,450,000	$ 363,570,000

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, 2021

Schedule 3

		District									
		Oahu		Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating revenues, net											
Services											
Wharfage	$ -	$ 111,903,500	$ 6,771,324	$ 4,340,194	$ 6,866,723	$ 8,602,451	$ 364,371	$ 362,324	$ 4,315,779	$ -	$ 143,526,666
Dockage	-	5,748,586	1,021,160	137,778	75,257	197,830	16,114	6,215	82,688	2,435	7,288,063
Demurrage	-	1,082,083	-	75,831	129,679	65,910	-	-	50,335	-	1,403,838
Port entry	-	639,606	121,447	42,754	40,309	71,773	14,867	6,061	33,609	2,537	972,963
Mooring charges	-	193,833	-	8,258	35,386	-	2,043	-	-	264,265	503,785
Cleaning charges	-	112,285	-	-	-	-	-	-	-	-	112,285
Other services	-	35,156	299	5,641	99	1,208	-	-	229	3,712	46,344
Pax debark/embark	-	-	-	-	120	-	-	-	-	-	120
Total services	-	119,715,049	7,914,230	4,610,456	7,147,573	8,939,172	397,395	374,600	4,482,640	272,949	153,854,064
Rentals											
Wharf space and land	-	10,357,408	3,842,630	113,176	419,212	237,306	14,266	5,420	293,774	280,134	15,563,326
Other pipeline	-	268,571	2,295,507	1,016,982	171,897	1,095,299	26,690	-	235,658	134,074	5,244,678
Storage	-	3,715,123	138,740	195,677	437,486	102,483	26,342	29,765	396,205	10,087	5,051,908
Automobile parking	-	771,841	5,950	30,850	11,767	38,987	579	-	41,603	8,421	909,998
Pipeline water	-	108,589	13,270	1,666	803	63	-	-	1,324	-	125,715
Total rentals	-	15,221,532	6,296,097	1,358,351	1,041,165	1,474,138	67,877	35,185	968,564	432,716	26,895,625
Others											
Sale of utilities	-	600,906	20,260	41,366	88,320	13,774	1,532	132	31,309	377	797,976
Miscellaneous	-	379,334	128,895	635	537	-	-	-	1,984	1,179	512,564
Total others	-	980,240	149,155	42,001	88,857	13,774	1,532	132	33,293	1,556	1,310,540
Total operating revenues	-	135,916,821	14,359,482	6,010,808	8,277,595	10,427,084	466,804	409,917	5,484,497	707,221	182,060,229
Operating expenses before depreciation expenses											
Personnel services	10,866,623	10,146,807	283,423	1,191,125	200,883	1,500,046	68,515	53,705	1,438,711	69,461	25,819,299
Harbor operations & maintenance	10,522,719	3,006,877	685,143	532,066	410,585	820,040	15,399	6,114	570,628	2,119	16,571,690
State of Hawaii surcharge for central service expenses	6,648,161	-	-	-	-	-	-	-	-	-	6,648,161
General administration	3,254,353	279,452	769	67,714	45,515	13,350	821	650	14,937	1,016	3,678,577
Department of Transportation general administration expenses	1,238,817	-	-	-	-	-	-	-	-	-	1,238,817
Subtotal	32,530,673	13,433,136	969,335	1,790,905	656,983	2,333,436	84,735	60,469	2,024,276	72,596	53,956,544
Allocation of statewide expenses (1)	(32,530,673)	24,285,731	2,565,764	1,074,016	1,479,048	1,863,120	83,409	73,244	979,974	126,367	-
Total operating expenses before depreciation expense	-	37,718,867	3,535,099	2,864,921	2,136,031	4,196,556	168,144	133,713	3,004,250	198,963	53,956,544
Income from operations before depreciation expense	$ -	$ 98,197,954	$ 10,824,383	$ 3,145,887	$ 6,141,564	$ 6,230,528	$ 298,660	$ 276,204	$ 2,480,247	$ 508,258	$ 128,103,685

(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, 2021 **Schedule 4**

Net revenues, as defined by the 1997 Certificate		
Operating income before depreciation expense	$	128,103,685
Add		
Interest income		1,677,671
State of Hawaii surcharge for central service expenses		6,648,161
Cash available in the harbor reserve and contingency account		10,897,658
	$	147,327,175
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments	$	28,349,585
Ratio of net revenues to harbor revenue bond debt service requirements		5.20

See accompanying independent auditors’ report.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statements of net position of the Harbors Division, Department of Transportation, State of Hawaii (the "Harbors Division") as of and for the year ended June 30, 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Harbors Division's basic financial statements, and have issued our report thereon dated December 6, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Harbors Division's internal control over financial reporting ("internal control") as a basis for determining the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harbors Division's internal control. Accordingly, we do not express an opinion on the effectiveness of Harbors Division's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Harbors Division's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Harbors Division's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Harbors Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
December 6, 2021

ACCUITY